

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _ to _

Commission file number 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

**245 Park Avenue, 26th Floor
New York, New York**

(Address of Principal Executive Offices)

27-5254382

(I.R.S. Employer
Identification No.)

10167

(Zip Code)

(212) 692-2000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class:</u> | <u>Trading Symbols:</u> | <u>Name of each exchange on which registered:</u> |
|--|-------------------------|---|
| Common Stock, \$0.01 par value per share | MITT | New York Stock Exchange (NYSE) |
| 8.25% Series A Cumulative Redeemable Preferred Stock | MITT PrA | New York Stock Exchange (NYSE) |
| 8.00% Series B Cumulative Redeemable Preferred Stock | MITT PrB | New York Stock Exchange (NYSE) |
| 8.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock | MITT PrC | New York Stock Exchange (NYSE) |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 2, 2022, there were 22,062,255 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.
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PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)
(in thousands, except per share data)

| | <u>September 30, 2022</u> | <u>December 31, 2021</u> |
|---|---------------------------|--------------------------|
| Assets | | |
| Securitized residential mortgage loans, at fair value - \$371,094 and \$119,947 pledged as collateral, respectively (1) | \$ 3,419,408 | \$ 1,158,134 |
| Residential mortgage loans, at fair value - \$779,876 and \$1,469,358 pledged as collateral, respectively | 783,771 | 1,476,972 |
| Real estate securities, at fair value - \$42,741 and \$444,481 pledged as collateral, respectively | 44,856 | 514,470 |
| Investments in debt and equity of affiliates | 79,030 | 92,023 |
| Cash and cash equivalents | 77,638 | 68,079 |
| Restricted cash | 21,798 | 32,150 |
| Other assets | 25,232 | 20,900 |
| Total Assets | \$ 4,451,733 | \$ 3,362,728 |
| Liabilities | | |
| Securitized debt, at fair value (1) | \$ 3,025,128 | \$ 999,215 |
| Financing arrangements | 935,765 | 1,777,743 |
| Dividend payable | 4,655 | 5,021 |
| Other liabilities (2) | 21,889 | 10,369 |
| Total Liabilities | 3,987,437 | 2,792,348 |
| Commitments and Contingencies (Note 12) | | |
| Stockholders' Equity | | |
| Preferred stock - \$227,991 aggregate liquidation preference | 220,472 | 220,472 |
| Common stock, par value \$0.01 per share; 450,000 shares of common stock authorized and 22,117 and 23,908 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively | 221 | 239 |
| Additional paid-in capital | 783,355 | 796,469 |
| Retained earnings/(deficit) | (539,752) | (446,800) |
| Total Stockholders' Equity | 464,296 | 570,380 |
| Total Liabilities & Stockholders' Equity | \$ 4,451,733 | \$ 3,362,728 |

- (1) These balances relate to certain residential mortgage loans which were securitized resulting in the Company consolidating the variable interest entities that were created to facilitate these securitizations as the Company was determined to be the primary beneficiary. See Note 3 for additional details.
- (2) Refer to Note 7 and Note 10 for additional details on amounts payable to affiliates.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Net Interest Income | | | | |
| Interest income | \$ 50,190 | \$ 19,629 | \$ 123,017 | \$ 45,976 |
| Interest expense | 34,699 | 7,197 | 73,994 | 16,552 |
| Total Net Interest Income | 15,491 | 12,432 | 49,023 | 29,424 |
| Other Income/(Loss) | | | | |
| Net interest component of interest rate swaps | (996) | (1,184) | (5,849) | (3,498) |
| Net realized gain/(loss) | 50,981 | (5,460) | 60,072 | (5,124) |
| Net unrealized gain/(loss) | (54,261) | 29,461 | (123,032) | 58,995 |
| Other income/(loss), net | - | - | - | 37 |
| Total Other Income/(Loss) | (4,276) | 22,817 | (68,809) | 50,410 |
| Expenses | | | | |
| Management fee to affiliate (1) | 2,064 | 1,693 | 5,984 | 5,014 |
| Other operating expenses (1) | 4,083 | 2,997 | 11,594 | 10,128 |
| Transaction related expenses (1) | 5,325 | 2,013 | 14,939 | 3,731 |
| Servicing fees | 986 | 849 | 3,005 | 2,136 |
| Total Expenses | 12,458 | 7,552 | 35,522 | 21,009 |
| Income/(loss) before equity in earnings/(loss) from affiliates | (1,243) | 27,697 | (55,308) | 58,825 |
| Equity in earnings/(loss) from affiliates | (1,626) | 6,882 | (9,486) | 34,496 |
| Net Income/(Loss) | (2,869) | 34,579 | (64,794) | 93,321 |
| Gain on Exchange Offers, net (Note 11) | - | - | - | 472 |
| Dividends on preferred stock | (4,586) | (4,586) | (13,758) | (14,199) |
| Net Income/(Loss) Available to Common Stockholders | \$ (7,455) | \$ 29,993 | \$ (78,552) | \$ 79,594 |
| Earnings/(Loss) Per Share of Common Stock (2) | | | | |
| Basic | \$ (0.33) | \$ 1.87 | \$ (3.38) | \$ 5.21 |
| Diluted | \$ (0.33) | \$ 1.87 | \$ (3.38) | \$ 5.21 |
| Weighted Average Number of Shares of Common Stock Outstanding (2) | | | | |
| Basic | 22,394 | 16,077 | 23,250 | 15,270 |
| Diluted | 22,394 | 16,077 | 23,250 | 15,270 |

(1) Refer to Note 10 for additional details on related party transactions.

(2) Amounts have been adjusted to reflect the one-for-three reverse stock split effected July 22, 2021. See Note 2 and Note 11 for additional details.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Unaudited)
(in thousands)

For the Three Months Ended September 30, 2022 and September 30, 2021

| | Common Stock | | Preferred Stock | Additional Paid-in Capital | Retained Earnings/(Deficit) | Total |
|--------------------------------------|--------------|--------|-----------------|----------------------------|-----------------------------|------------|
| | Shares | Amount | | | | |
| Balance at July 1, 2022 | 22,490 | \$ 225 | \$ 220,472 | \$ 785,610 | \$ (527,642) | \$ 478,665 |
| Repurchase of common stock | (385) | (4) | - | (2,335) | - | (2,339) |
| Grant of restricted stock | 12 | - | - | 80 | - | 80 |
| Common dividends declared | - | - | - | - | (4,655) | (4,655) |
| Preferred dividends declared | - | - | - | - | (4,586) | (4,586) |
| Net Income/(Loss) | - | - | - | - | (2,869) | (2,869) |
| Balance at September 30, 2022 | 22,117 | \$ 221 | \$ 220,472 | \$ 783,355 | \$ (539,752) | \$ 464,296 |

| | Common Stock (1) | | Preferred Stock | Additional Paid-in Capital (1) | Retained Earnings/(Deficit) | Total |
|--------------------------------------|------------------|--------|-----------------|--------------------------------|-----------------------------|------------|
| | Shares | Amount | | | | |
| Balance at July 1, 2021 | 16,164 | \$ 162 | \$ 220,472 | \$ 719,940 | \$ (474,697) | \$ 465,877 |
| Repurchase of common stock | (258) | (3) | - | (2,844) | - | (2,847) |
| Grant of restricted stock | 6 | - | - | 80 | - | 80 |
| Common dividends declared | - | - | - | - | (3,354) | (3,354) |
| Preferred dividends declared | - | - | - | - | (4,586) | (4,586) |
| Net Income/(Loss) | - | - | - | - | 34,579 | 34,579 |
| Balance at September 30, 2021 | 15,912 | \$ 159 | \$ 220,472 | \$ 717,176 | \$ (448,058) | \$ 489,749 |

For the Nine Months Ended September 30, 2022 and September 30, 2021

| | Common Stock | | Preferred Stock | Additional Paid-in Capital | Retained Earnings/(Deficit) | Total |
|--------------------------------------|--------------|--------|-----------------|----------------------------|-----------------------------|------------|
| | Shares | Amount | | | | |
| Balance at January 1, 2022 | 23,908 | \$ 239 | \$ 220,472 | \$ 796,469 | \$ (446,800) | \$ 570,380 |
| Repurchase of common stock | (1,819) | (18) | - | (13,354) | - | (13,372) |
| Grant of restricted stock | 28 | - | - | 240 | - | 240 |
| Common dividends declared | - | - | - | - | (14,400) | (14,400) |
| Preferred dividends declared | - | - | - | - | (13,758) | (13,758) |
| Net Income/(Loss) | - | - | - | - | (64,794) | (64,794) |
| Balance at September 30, 2022 | 22,117 | \$ 221 | \$ 220,472 | \$ 783,355 | \$ (539,752) | \$ 464,296 |

| | Common Stock (1) | | Preferred Stock | Additional Paid-in Capital (1) | Retained Earnings/(Deficit) | Total |
|--|------------------|--------|-----------------|--------------------------------|-----------------------------|------------|
| | Shares | Amount | | | | |
| Balance at January 1, 2021 | 13,811 | \$ 138 | \$ 238,478 | \$ 689,147 | \$ (518,058) | \$ 409,705 |
| Net proceeds from issuance of common stock | 972 | 10 | - | 13,123 | - | 13,133 |
| Repurchase of common stock | (258) | (3) | - | (2,844) | - | (2,847) |
| Grant of restricted stock | 19 | - | - | 240 | - | 240 |
| Common dividends declared | - | - | - | - | (9,539) | (9,539) |
| Preferred dividends declared | - | - | - | - | (14,254) | (14,254) |
| Exchange Offers (Note 11) | 1,368 | 14 | (18,006) | 17,510 | 472 | (10) |
| Net Income/(Loss) | - | - | - | - | 93,321 | 93,321 |
| Balance at September 30, 2021 | 15,912 | \$ 159 | \$ 220,472 | \$ 717,176 | \$ (448,058) | \$ 489,749 |

(1) Amounts have been adjusted to reflect the one-for-three reverse stock split effected July 22, 2021. See Note 2 and Note 11 for additional details.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

| | Nine Months Ended | |
|---|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Cash Flows from Operating Activities | | |
| Net income/(loss) | \$ (64,794) | \$ 93,321 |
| Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities: | | |
| Net amortization of premium/(discount) | 3,816 | 2,993 |
| Net realized (gain)/loss | (60,072) | 5,124 |
| Net unrealized (gain)/loss | 123,032 | (58,995) |
| Equity based compensation expense | 240 | 240 |
| (Income)/Loss from investments in debt and equity of affiliates in excess of distributions received | 10,757 | (17,337) |
| Change in operating assets/liabilities: | | |
| Other assets | (5,740) | (4,939) |
| Other liabilities | 9,567 | (642) |
| Net cash provided by (used in) operating activities | <u>16,806</u> | <u>19,765</u> |
| Cash Flows from Investing Activities | | |
| Purchase of residential mortgage loans | (2,440,718) | (1,263,835) |
| Purchase of real estate securities | (108,558) | (768,794) |
| Origination of commercial loans | - | (1,881) |
| Purchase of commercial loans | - | (3,219) |
| Investments in debt and equity of affiliates | (1,720) | (3,806) |
| Proceeds from sales of residential mortgage loans | - | 47,219 |
| Proceeds from sales of real estate securities | 526,813 | 761,568 |
| Proceeds from sales of commercial loans | - | 74,579 |
| Principal repayments on residential mortgage loans | 393,170 | 75,746 |
| Principal repayments on real estate securities | 20,342 | 49,336 |
| Principal repayments on commercial loans | - | 70,232 |
| Distributions received in excess of income from investments in debt and equity of affiliates | 9,824 | 66,154 |
| Net settlement of interest rate swaps and other instruments | 103,553 | 13,090 |
| Net settlement of TBAs | 2,789 | (1,087) |
| Cash flows provided by (used in) other investing activities | 2,865 | 5,992 |
| Net cash provided by (used in) investing activities | <u>(1,491,640)</u> | <u>(878,706)</u> |
| Cash Flows from Financing Activities | | |
| Net proceeds from issuance of common stock | - | 13,133 |
| Repurchase of common stock | (13,372) | (2,847) |
| Net borrowings under (repayments of) financing arrangements | (841,978) | 596,473 |
| Deferred financing costs paid | (310) | (277) |
| Repayments of secured debt | - | (10,000) |
| Proceeds from issuance of securitized debt | 2,659,283 | 463,987 |
| Principal repayments on securitized debt | (320,502) | (113,338) |
| Net collateral received from (paid to) derivative counterparty | 19,444 | - |
| Dividends paid on common stock | (14,766) | (7,428) |
| Dividends paid on preferred stock | (13,758) | (14,254) |
| Net cash provided by (used in) financing activities | <u>1,474,041</u> | <u>925,449</u> |

Nine Months Ended

| | <u>September 30, 2022</u> | <u>September 30, 2021</u> |
|--|---------------------------|---------------------------|
| Net change in cash and cash equivalents and restricted cash | (793) | 66,508 |
| Cash and cash equivalents and restricted cash, Beginning of Period | 100,229 | 62,318 |
| Effect of exchange rate changes on cash | - | 10 |
| Cash and cash equivalents and restricted cash, End of Period | <u>\$ 99,436</u> | <u>\$ 128,836</u> |

Supplemental disclosure of cash flow information:

| | | |
|--|-----------|-----------|
| Cash paid for interest on financing arrangements | \$ 62,645 | \$ 15,416 |
| Cash paid for excise and income taxes | \$ 23 | \$ 16 |

Supplemental disclosure of non-cash financing and investing activities:

| | | |
|--|----------|-----------|
| Common stock dividends declared but not paid | \$ 4,655 | \$ 3,354 |
| Exchange Offers (Note 11) | \$ - | \$ 18,006 |
| Holdback on sale of excess MSR's | \$ - | \$ 134 |
| Purchase price payable on loans | \$ 794 | \$ - |
| Transfer from residential mortgage loans to other assets | \$ 1,857 | \$ 1,338 |

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

| | <u>September 30, 2022</u> | <u>September 30, 2021</u> |
|---|---------------------------|---------------------------|
| Cash and cash equivalents | \$ 77,638 | \$ 101,749 |
| Restricted cash | 21,798 | 27,087 |
| Total cash and cash equivalents and restricted cash | <u>\$ 99,436</u> | <u>\$ 128,836</u> |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2022

1.
Organization

AG Mortgage Investment Trust, Inc. (the "Company") is a residential mortgage REIT with a focus on investing in a diversified risk-adjusted portfolio of residential mortgage-related assets in the U.S. mortgage market. The Company's investment activities primarily include acquiring and securitizing newly-originated residential mortgage loans within the non-agency segment of the housing market. The Company obtains its assets through Arc Home, LLC ("Arc Home"), a residential mortgage loan originator in which it owns an approximate 44.6% interest, and through other third-party origination partners.

The Company's assets, excluding its ownership in Arc Home, include Residential Investments and Agency RMBS. Currently, its Residential Investments primarily consist of Non-Agency Loans and Agency-Eligible Loans. The Company may invest in other types of residential mortgage loans and other mortgage related assets. The Company also invests in Residential Investments through its unconsolidated ownership interests in affiliates which are included in the "Investments in debt and equity of affiliates" line item on its consolidated balance sheets.

The Company's asset classes are primarily comprised of the following:

| Asset Class | Description |
|---|---|
| Residential Investments | |
| Non-Agency Loans ⁽¹⁾ | • Non-Agency Loans are loans that do not conform to the underwriting guidelines of a government-sponsored enterprise ("GSE"). Non-Agency Loans consist of Qualified mortgage loans ("QM Loans") and Non-Qualified mortgage loans ("Non-QM Loans"). QM Loans are residential mortgage loans that comply with the Ability-To-Repay rules and related guidelines of the Consumer Finance Protection Bureau ("CFPB"). |
| Agency-Eligible Loans ⁽¹⁾ | • Agency-Eligible Loans are loans that are underwritten in accordance with GSE guidelines and are primarily secured by investment properties. |
| Re- and Non-Performing Loans ⁽¹⁾ | • Performing, re-performing, and non-performing loans are residential mortgage loans collateralized by a first lien mortgaged property. |
| Non-Agency Residential Mortgage-Backed Securities ("RMBS") ⁽²⁾ | • Non-Agency RMBS represent fixed- and floating-rate RMBS issued by entities other than U.S. GSEs or agencies of the U.S. government. The mortgage loan collateral consists of either Non-Agency Loans or Agency-Eligible Loans. |
| Agency RMBS ⁽²⁾ | • Agency RMBS represent interests in pools of residential mortgage loans guaranteed by a GSE such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government such as Ginnie Mae. |

(1) These investments are included in the "Securitized residential mortgage loans, at fair value" and "Residential mortgage loans, at fair value" line items on the consolidated balance sheets.

(2) These investments are included in the "Real estate securities, at fair value" line item on the consolidated balance sheets.

The Company conducts its business through one reportable segment, Loans and Securities, which reflects how the Company manages its business and analyzes and reports its results of operations.

The Company was incorporated in the state of Maryland on March 1, 2011 and commenced operations in July 2011. The Company conducts its operations to qualify and be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). The Company is externally managed by AG REIT Management, LLC, a Delaware limited liability company (the "Manager"), a wholly-owned subsidiary of Angelo, Gordon & Co., L.P. ("Angelo Gordon"), a privately-held, SEC-registered investment adviser. The Manager has delegated to Angelo Gordon the overall responsibility of its day-to-day duties and obligations arising under the management agreement.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2022

COVID-19 Impact

In March 2020, the global novel coronavirus ("COVID-19") pandemic and the related economic conditions caused financial and mortgage-related asset markets to come under extreme duress, resulting in credit spread widening, a sharp decrease in interest rates and unprecedented illiquidity in repurchase agreement financing and mortgage-backed securities ("MBS") markets. The illiquidity was exacerbated by inadequate demand for MBS among primary dealers due to balance sheet constraints. Although market conditions have improved since 2020, the COVID-19 pandemic is ongoing with new variants emerging despite growing vaccination rates. As a result, the full impact of COVID-19 on the mortgage REIT industry, credit markets, and, consequently, on the Company's financial condition and results of operations for future periods remains uncertain.

2.
Summary of significant accounting policies

The accompanying unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. For all periods presented, all per share amounts and common shares outstanding have been adjusted on a retroactive basis to reflect the Company's one-for-three reverse stock split which was effected following the close of business on July 22, 2021. In the opinion of management, all adjustments considered necessary for a fair statement of the Company's financial position, results of operations, and cash flows have been included for the interim period and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Valuation of financial instruments

The fair value of the financial instruments that the Company records at fair value is determined by the Manager, subject to oversight of the Company's Board of Directors, and in accordance with the provisions of Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using third-party data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable.

The three levels of the hierarchy under ASC 820 are described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Prices determined using other significant observable inputs. These may include quoted prices for similar assets and liabilities in active markets.
- Level 3 - Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Transfers between levels are assumed to occur at the beginning of the reporting period.

Accounting for loans

Investments in loans are recorded in accordance with ASC 310-10, "Receivables" and are classified as held-for-investment when the Company has the intent and ability to hold such loans for the foreseeable future or to maturity/payoff. Loans are classified as held for sale upon the Company determining that it intends to sell or liquidate the loan in the short-term and certain criteria have been met. Loans held-for-sale are accounted for under ASC 948-310, "Financial services-mortgage banking." Loans meeting all criteria for reclassification are presented separately on the consolidated balance sheets. Transfers between held-for-investment and held-for-sale occur once the Company's intent to sell the loans changes.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2022

The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all loan activities will be recorded in a similar manner. As such, loans are recorded at fair value on the consolidated balance sheets and any periodic change in fair value is recorded in current period earnings on the consolidated statement of operations as a component of "Net unrealized gain/(loss)." The Company recognizes certain upfront costs and fees relating to loans for which the fair value option has been elected in current period earnings as incurred and does not defer those costs, which is in accordance with ASC 825-10-25.

Purchases and sales of loans are recorded on the settlement date, concurrent with the completion of due diligence and the removal of any contingencies.

At purchase, the Company may aggregate its residential mortgage loans into pools based on common risk characteristics. Once a pool of loans is assembled, its composition is maintained. When the Company purchases mortgage loans with evidence of credit deterioration since origination and it determines that it is probable it will not collect all contractual cash flows on those loans, it will apply the guidance found in ASC 310-30. Mortgage loans that are delinquent 60 or more days are considered non-performing for purposes of this determination.

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for loans accounted for under ASC 310-30. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of principal and interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes prospectively through an adjustment of the loan's yield over its remaining life. The Company will adjust the amount of accretable yield by reclassification from the nonaccretable difference.

The Company accrues interest income on its loan portfolio. Loans are typically moved to non-accrual status and income recognition is suspended if the loan becomes 90 days or more delinquent. A loan is written off when it is no longer realizable and/or legally discharged.

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320-10, "Investments - Debt and Equity Securities" or ASC 325-40, "Beneficial Interests in Securitized Financial Assets." The Company has chosen to make a fair value election pursuant to ASC 825, "Financial Instruments" for its real estate securities portfolio. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Real estate securities are recorded at fair value on the consolidated balance sheets and the periodic change in fair value is recorded in current period earnings on the consolidated statement of operations as a component of "Net unrealized gain/(loss)." Purchases and sales of real estate securities are recorded on the trade date.

Investments in debt and equity of affiliates

The Company's unconsolidated ownership interests in affiliates are accounted for using the equity method in accordance with ASC 323, "Investments - Equity Method and Joint Ventures." Substantially all of the Company's investments held through affiliated entities are comprised of real estate securities, loans, and its interest in AG Arc LLC. Certain entities have chosen to make a fair value election on their financial instruments and certain financing arrangements pursuant to ASC 825; as such, the Company will treat these financial instruments and financing arrangements consistently with this election.

Arc Home

On December 9, 2015, the Company, alongside private funds managed by Angelo Gordon, through AG Arc LLC, one of the Company's indirect affiliates ("AG Arc"), formed Arc Home. The Company has an approximate 44.6% interest in AG Arc. Arc Home originates residential mortgage loans and retains the mortgage servicing rights associated with certain loans it originates. Arc Home is led by an external management team. The Company has chosen to make a fair value election with respect to its investment in AG Arc pursuant to ASC 825. The Company elected to treat its investment in AG Arc as a taxable REIT subsidiary. As a result, income or losses recognized by the Company from its investment in AG Arc are recorded in "Equity in earnings/(loss) from affiliates" line item on the Company's consolidated statement of operations net of income taxes.

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From time to time, the Company acquires newly originated residential mortgage loans from Arc Home. In connection with the sale of loans from Arc Home to the Company, gains or losses recorded by Arc Home are consolidated into AG Arc. In accordance with ASC 323-10, for loans acquired from Arc Home that remain on the Company's consolidated balance sheet at period end, the Company eliminates any profits or losses typically recognized through the "Equity in earnings/(loss) from affiliates" line item on the Company's consolidated statement of operations and adjusts the cost basis of the underlying loans resulting in unrealized gains or losses.

During the three and nine months ended September 30, 2022 and 2021, the Company eliminated intra-entity profits recognized by Arc Home and also decreased the cost basis of the underlying loans by the same amount in connection with loan sales to the Company, as detailed below (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Intra-Entity Profits Eliminated | \$ 1,755 | \$ 1,580 | \$ 5,869 | \$ 3,467 |

Additionally, the Company enters into forward purchase commitments with Arc Home whereby the Company commits to purchase residential mortgage loans from Arc Home at a particular price on a best-efforts basis. See the "Accounting for derivative financial instruments - Forward purchase commitments" policy below and Note 10 for additional detail.

MATH

On August 29, 2017, the Company, alongside private funds managed by Angelo Gordon, formed Mortgage Acquisition Holding I LLC ("MATH") to conduct a residential mortgage investment strategy. The Company has an approximate 44.6% interest in MATH. MATH in turn sponsored the formation of an entity called Mortgage Acquisition Trust I LLC ("MATT") to purchase predominantly Non-QM Loans. MATT made an election to be treated as a real estate investment trust beginning with the 2018 tax year. As of September 30, 2022, MATT primarily holds retained tranches from past securitizations which continue to pay down and the Company does not expect to acquire additional investments within this equity method investment.

LOTS

On May 15, 2019 and November 14, 2019, the Company, alongside private funds managed by Angelo Gordon, formed LOT SP I LLC and LOT SP II LLC, respectively, (collectively, "LOTS"). The Company has an approximate 47.5% and 50% interest in LOT SP I LLC and LOT SP II LLC, respectively. LOTS were formed to originate first mortgage loans to third-party land developers and home builders for the acquisition and horizontal development of land ("Land Related Financing"). The LOTS investments continue to pay down and the Company does not expect to originate new loans within this equity method investment.

Investment consolidation

An entity is a variable interest entity ("VIE") if the equity investors (i) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, (ii) are unable to direct the entity's activities, or (iii) are not exposed to the entity's losses or entitled to its residual returns. VIEs within the scope of ASC 810-10, "Consolidation," are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analyses. Further, ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. In accordance with ASC 810-10, all transferees, including variable interest entities, must be evaluated for consolidation. If the Company determines that consolidation is not required, it will then assess whether the transfer of the underlying assets would qualify as a sale, should be accounted for as secured financings under GAAP, or should be accounted for as an equity method investment, depending on the circumstances.

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity, or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to an SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and depending

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on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

The Company enters into securitization transactions collateralized by its Non-Agency Loans ("Non-Agency VIEs"), Agency-Eligible Loans ("Agency-Eligible VIEs"), and re- and non-performing loans ("RPL/NPL VIEs") (collectively, "Residential Mortgage Loan VIEs"), which may result in the Company consolidating the respective VIEs that are created to facilitate these securitizations. Based on the evaluations of each VIE, the Company may conclude that the VIEs should be consolidated and, as a result, transferred assets of these VIEs would be determined to be secured borrowings. Upon consolidation, the Company elected the fair value option pursuant to ASC 825 for the assets and liabilities of the Residential Mortgage Loan VIEs. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all activities will be recorded in a similar manner. The Company applied the guidance under ASC 810-10 (Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity) whereby the Company determines whether the fair value of the assets or liabilities of the Residential Mortgage Loan VIEs are more observable as a basis for measuring the less observable financial instruments. The Company has determined that the fair value of the liabilities of the Residential Mortgage Loan VIEs are more observable since the prices for these liabilities are more easily determined as similar instruments trade more frequently on a relative basis than the individual assets of the VIEs. See Note 3 for more detail regarding the Residential Mortgage Loan VIEs and Note 5 for more detail related to the Company's determination of fair value for the assets and liabilities included within these VIEs.

Transfers of financial assets

The Company may periodically enter into transactions in which it transfers assets to a third party. Upon a transfer of financial assets, the Company will sometimes retain or acquire senior or subordinated interests in the related assets. Pursuant to ASC 860-10, "Transfers and Servicing" a determination must be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. The financial components approach under ASC 860-10 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

Under ASC 860-10, after a transfer of financial assets that meets the criteria for treatment as a sale-legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transferred control-an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold and derecognizes liabilities when extinguished. The transferor would then determine the gain or loss on sale of financial assets by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair value. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. When a transfer of financial assets does not qualify for sale accounting, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral.

From time to time, the Company may securitize mortgage loans it holds if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a "sale" and the loans will be removed from the consolidated balance sheets or as a "financing" and will be classified as "Securitized residential mortgage loans, at fair value" on the consolidated balance sheets, depending upon the structure of the securitization transaction. ASC 860-10 is a standard that may require the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. Cash equivalents may include cash invested in money market funds. Cash and cash equivalents are carried at cost, which approximates fair value. The Company places its

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cash with high credit quality institutions to minimize credit risk exposure. Cash pledged to the Company as collateral is unrestricted in use and, accordingly, is included as a component of "Cash and cash equivalents" on the consolidated balance sheets. Any cash held by the Company as collateral is included in the "Other liabilities" line item on the consolidated balance sheets and in cash flows from financing activities on the consolidated statement of cash flows. "Other liabilities" does not include variation margin received on centrally cleared derivatives. Refer to the "Accounting for derivative financial instruments" policy below for additional detail. Any cash due to the Company in the form of principal payments is included in the "Other assets" line item on the consolidated balance sheets and in cash flows from operating activities on the consolidated statement of cash flows.

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives, and financing arrangements, as well as restricted cash deposited into accounts held at certain consolidated trusts. Restricted cash is not available to the Company for general corporate purposes. Restricted cash may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the derivative or financing arrangement. Restricted cash is carried at cost, which approximates fair value. Restricted cash also includes variation margin pledged on centrally cleared derivatives. Refer to the "Accounting for derivative financial instruments" policy below for additional detail.

Financing arrangements

The Company finances the acquisition of certain assets within its portfolio through the use of financing arrangements. Financing arrangements primarily include repurchase agreements, but may also include revolving facilities. Repurchase agreements are treated as collateralized financing transactions and carried at their contractual amounts, including accrued interest, as specified in the respective agreements. The carrying amount of the Company's repurchase agreements and revolving facilities approximates fair value.

The Company pledges certain loans or securities as collateral under financing arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed under repurchase agreements and revolving facilities are dependent upon the fair value of the loans or securities pledged as collateral, which can fluctuate with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance, and real estate industries. If the fair value of pledged assets declines due to changes in market conditions, lenders typically would require the Company to post additional securities as collateral, pay down borrowings, or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. The fair value of financial instruments pledged as collateral on the Company's financing arrangements represents the Company's fair value of such instruments which may differ from the fair value assigned to the collateral by its counterparties. The Company maintains a level of liquidity in order to meet these obligations. If the fair value of pledged assets increases due to changes in market conditions, counterparties may be required to return collateral to the Company in the form of securities or cash or post additional collateral to the Company. Financings pursuant to repurchase agreements and revolving facilities are generally recourse to the Company. As of September 30, 2022 and December 31, 2021, the Company had met all margin call requirements.

Accounting for derivative financial instruments

Derivative contracts

The Company enters into derivative contracts as a means of mitigating interest rate risk rather than to enhance returns. The Company accounts for derivative financial instruments in accordance with ASC 815-10, "Derivatives and Hedging." ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value with corresponding changes in fair value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis with respect to its counterparties. During the period in which the Company unwinds a derivative, it records a realized gain/(loss) in the "Net realized gain/(loss)" line item in the consolidated statement of operations. As of September 30, 2022 and December 31, 2021, the Company did not have any interest rate derivatives designated as hedges for accounting purposes.

To-be-announced securities

A to-be-announced security ("TBA") is a forward contract for the purchase or sale of Agency RMBS at a predetermined price,

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face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into or received from the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. The Company may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a pair off), net settling the paired off positions for cash, simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a dollar roll. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to Agency RMBS for settlement in the current month. This difference, or discount, is referred to as the price drop. The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as dollar roll income/(loss). Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. Dollar roll income is recognized in the consolidated statement of operations in the line item "Net unrealized gain/(loss)."

Variation margin

The Company may exchange cash "variation margin" with the counterparties to its derivative instruments on a daily basis based upon changes in the fair value of such derivative instruments as measured by the Chicago Mercantile Exchange ("CME") and the London Clearing House, the central clearinghouses ("CCPs") through which those derivatives are cleared. In addition, the CCPs require market participants to deposit and maintain an "initial margin" amount which is determined by the CCPs and is generally intended to be set at a level sufficient to protect the CCPs from the maximum estimated single-day price movement in that market participant's contracts.

Receivables recognized for the right to reclaim cash initial margin posted in respect of derivative instruments are included in the "Restricted cash" line item in the consolidated balance sheets. The daily exchange of variation margin associated with a CCP instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared derivative instruments as a direct reduction to the carrying value of the derivative asset or liability, respectively. The daily receipt or payment is included as a settlement of the derivative in cash flows from investing activities on the consolidated statement of cash flows. The carrying amount of centrally cleared derivative instruments reflected in the Company's consolidated balance sheets approximates the unsettled fair value of such instruments. As variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period.

Forward purchase commitments

The Company may enter into forward purchase commitments with counterparties whereby the Company commits to purchasing residential mortgage loans at a particular price. Actual loan purchases are contingent upon successful loan closings. The counterparties deliver the committed loans on either a mandatory basis or best-efforts basis. These commitments to purchase mortgage loans are classified as derivatives and are therefore recorded at fair value on the consolidated balance sheets, with corresponding changes in fair value recognized in the consolidated statement of operations. Derivatives with a positive fair value to the Company are reported as assets and derivatives with a negative fair value to the Company are reported as liabilities.

Earnings/(Loss) per share

In accordance with ASC 260, "Earnings per Share," the Company calculates basic income/(loss) per share by dividing net income/(loss) available to common stockholders for the period by weighted average shares of the Company's common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock and unvested restricted stock units using the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. Potential dilutive shares are excluded from the calculation, if they have an anti-dilutive effect in the period.

Interest income recognition

Interest income on the Company's loan and securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such loans or securities. The Company has elected to record interest in accordance with ASC 835-30-35-2, "Imputation of Interest," using the effective interest method for all loans and securities accounted for under the fair value option in accordance with ASC 825, "Financial Instruments." As such, premiums and discounts are amortized or accreted into interest income over the lives of the loans or securities in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs," ASC

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320-10 or ASC 325-40, as applicable. Total interest income is recorded in the "Interest income" line item on the consolidated statement of operations.

For Agency RMBS, exclusive of interest-only securities, prepayments of the underlying collateral are estimated on a quarterly basis, which directly affect the speed at which the Company amortizes premiums on its securities. If actual and anticipated cash flows differ from previous estimates, the Company records an adjustment in the current period to the amortization of premiums for the impact of the cumulative change in the effective yield retrospectively through the reporting date.

Similarly, the Company also reassesses the cash flows on at least a quarterly basis for loans and securities, including Non-Agency Loans, Agency-Eligible Loans, Non-Agency RMBS, and interest-only securities. In estimating these cash flows, there are a number of assumptions made that are uncertain and subject to judgments and assumptions based on subjective and objective factors and contingencies. These include the rate and timing of principal and interest receipts (including assumptions of prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be estimated. Differences between previously estimated cash flows and current actual and anticipated cash flows are recognized prospectively through an adjustment of the yield over the remaining life of the security based on the current amortized cost of the investment.

For loan and security investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30. For purposes of income recognition, the Company aggregates loans that have common risk characteristics into pools and uses a composite interest rate and expectation of cash flows expected to be collected for the pool. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (the "accretable yield") to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (the "nonaccretable difference") not be recognized as an adjustment of yield. Subsequent changes in cash flows expected to be collected generally should be recognized prospectively through an adjustment of the loan's yield over its remaining life.

Realized gains and losses

Realized gains or losses on sales of loans, securities, and derivatives are included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The cost of loans, securities, and derivatives sold is calculated using a first in, first out ("FIFO") basis. Realized gains and losses are recorded in earnings at the time of disposition.

Manager compensation

The management agreement, as amended, provides for payment to the Manager of a management fee, an incentive fee, and reimbursements of certain expenses incurred by the Manager or its affiliates on behalf of the Company. The management fee, incentive fee, and reimbursements are accrued and expensed during the period for which they are earned or for which the expenses are incurred, respectively. These expenses are included in the "Management fee to affiliate" line item and in the "Other operating expenses" and "Transaction related expenses" line items, respectively, on the consolidated statement of operations. For a more detailed discussion on the fees payable under the management agreement, see Note 10.

Transaction related expenses

The Company incurs transaction related expenses associated with purchasing and securitizing residential mortgage loans. In accordance with ASC 825 "Financial Instruments," nonrefundable fees and costs associated with originating or acquiring loans that are carried at fair value shall be recognized in earnings as incurred. Transaction related expenses are accrued and expensed during the period in which they are incurred and are included in the "Transaction related expenses" line item on the consolidated statement of operations.

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Income taxes

The Company conducts its operations to qualify and be taxed as a REIT. Accordingly, the Company will generally not be subject to federal or state corporate income tax to the extent that the Company makes qualifying distributions to its stockholders, and provided that it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company's taxable income/(loss) as opposed to net income/(loss) reported on the Company's GAAP financial statements. Taxable income/(loss), generally, will differ from net income/(loss) reported on the financial statements because the determination of taxable income/(loss) is based on tax principles and not financial accounting principles.

Cash distributions declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a distribution is designated by the Company as a capital gain dividend. Distributions in excess of the Company's current and accumulated earnings and profits will be characterized as return of capital or capital gains.

The Company elected to treat certain domestic subsidiaries as taxable REIT subsidiaries ("TRSs") and may elect to treat other subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business.

A domestic TRS may declare dividends to the Company which will be included in the Company's taxable income/(loss) which may necessitate a distribution to stockholders. Conversely, if the Company retains earnings at the domestic TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state and local corporate income taxes.

The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. The Company believes that it will operate in a manner that will allow it to qualify for taxation as a REIT. As a result of the Company's expected REIT qualification, it does not generally expect to pay federal or state corporate income tax. Many of the REIT requirements, however, are highly technical and complex.

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company evaluates uncertain income tax positions, if any, in accordance with ASC 740, "Income Taxes." The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 9 for further details.

Reverse stock split

On July 12, 2021, the Company announced that its Board of Directors approved a one-for-three reverse stock split of the Company's outstanding shares of common stock. The reverse stock split was effected following the close of business on July 22, 2021 (the "Effective Time"). At the Effective Time, every three issued and outstanding shares of the Company's common stock were combined into one share of the Company's common stock. No fractional shares were issued in connection with the reverse stock split. Instead, each stockholder holding fractional shares was entitled to receive, in lieu of such fractional shares, cash in an amount determined based on the closing price of the Company's common stock on the date of the Effective Time. The reverse stock split applied to all of the Company's outstanding shares of common stock and did not affect any stockholder's ownership percentage of shares of the Company's common stock, except for immaterial changes resulting from the payment of cash for fractional shares. All per share amounts and common shares outstanding for all periods presented in the unaudited

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consolidated financial statements have been adjusted on a retroactive basis to reflect the Company's reverse stock split, where applicable. See Note 11 for further details.

Dividends on Preferred Stock

Holders of the Company's 8.25% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), 8.00% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), and 8.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") are entitled to receive cumulative cash dividends at a rate of 8.25%, 8.00% and 8.000% per annum, respectively, of the \$25.00 per share liquidation preference for each series. On and after September 17, 2024, dividends on the Series C Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the then three-month LIBOR (or as replaced by the existing LIBOR cessation fallback language) plus a spread of 6.476% per annum. If the Company's Board of Directors does not declare a dividend in a given period, an accrual is not recorded on the balance sheet. However, undeclared preferred stock dividends are reflected in earnings per share as discussed in ASC 260-10-45-11. Preferred stock dividends that are not declared accumulate and are added to the liquidation preference as of the scheduled payment date for the respective series of the preferred stock. The undeclared and unpaid dividends on the Company's preferred stock accrue without interest, and if dividends on the Company's preferred stock are in arrears, the Company cannot pay cash dividends with respect to its common stock. See Note 11 for further detail on the Company's Preferred Stock.

Offering costs

The Company has incurred offering costs in connection with common stock offerings, registration statements, preferred stock offerings, and exchanges. Where applicable, the offering costs were paid out of the proceeds of the respective offerings. Offering costs in connection with common stock offerings and costs in connection with registration statements have been accounted for as a reduction of additional paid-in capital. Offering costs in connection with preferred stock offerings have been accounted for as a reduction of their respective gross proceeds. Exchange costs in connection with the Company's preferred stock exchanges have been accounted for as a reduction to the Company's retained earnings.

Recent accounting pronouncements

In March 2020, FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides temporary optional guidance intended to ease the burden of reference rate reform on financial reporting. This ASU is effective as of March 12, 2020 through December 31, 2022 and may be elected over time as reference rate reform activities occur. The ASU applies to all entities that have contracts, hedging relationships and other transactions that reference LIBOR and certain other reference rates that are expected to be discontinued. However, it cannot be applied to contract modifications that occur after December 31, 2022. With certain exceptions, this ASU also cannot be applied to hedging relationships entered into or evaluated after that date. The guidance provides optional expedients and exceptions for applying existing guidance to contract modifications, hedging relationships and other transactions that are expected to be affected by reference rate reform and meet certain scope guidance.

The Manager has an established cross-functional team that focuses on evaluating exposure to LIBOR and monitoring regulatory updates to assess the potential impact to the portfolios under management from the cessation set to occur in 2023 and has established a LIBOR transition plan to facilitate an orderly transition to alternative reference rates. As of September 30, 2022, the Company is continuing to assess the impact of the LIBOR transition and does not expect the transition or the adoption of ASU 2020-04 to have a material impact on the consolidated financial statements. The Company's primary exposure to LIBOR includes certain financing arrangements, interest rate swaps, and the Series C Preferred Stock. The Company's financing arrangements either have provisions in place that provide for an alternative to LIBOR upon its phase-out or contain maturities of one year or less and therefore would mature prior to the phase out of LIBOR in June 2023. In addition, the Company has begun amending terms of certain financing arrangements, where necessary, to transition or direct the transition to an alternative benchmark. Interest rate swaps will experience an orderly market transition prior to the cessation of LIBOR, although the Company has begun transitioning its interest rate swap portfolio away from LIBOR benchmarks. The Company does not currently intend to amend the Series C Preferred Stock to change the existing LIBOR cessation fallback language.

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3.
Loans

Residential mortgage loans

The table below details information regarding the Company's residential mortgage loan portfolio as of September 30, 2022 and December 31, 2021 (\$ in thousands). The gross unrealized gains/(losses) in the table below represent inception to date gains/(losses).

| September 30, 2022 | Unpaid Principal Balance | Premium (Discount) | Amortized Cost | Gross Unrealized | | Fair Value | Weighted Average | | |
|--|--------------------------|--------------------|---------------------|------------------|---------------------|---------------------|------------------|---------------|------------------|
| | | | | Gains | Losses | | Coupon | Yield | Life (Years) (1) |
| Securitized residential mortgage loans, at fair value (2) | | | | | | | | | |
| Non-Agency Loans | \$ 2,171,845 | \$ 60,890 | \$ 2,232,735 | \$ - | \$ (234,729) | \$ 1,998,006 | 5.01 % | 4.68 % | 10.08 |
| Agency-Eligible Loans | 1,263,827 | (1,641) | 1,262,186 | - | (120,041) | 1,142,145 | 3.87 % | 4.07 % | 9.84 |
| Re- and Non-Performing Loans | 335,199 | (39,602) | 295,597 | 2,053 | (18,393) | 279,257 | 3.90 % | 7.14 % | 5.02 |
| Total Securitized residential mortgage loans, at fair value | \$ 3,770,871 | \$ 19,647 | \$ 3,790,518 | \$ 2,053 | \$ (373,163) | \$ 3,419,408 | 4.53 % | 4.68 % | 9.55 |
| Residential mortgage loans, at fair value | | | | | | | | | |
| Non-Agency Loans | \$ 744,611 | \$ (7,031) | \$ 737,580 | \$ 3,748 | \$ (54,860) | \$ 686,468 | 5.37 % | 5.37 % | 6.56 |
| Agency-Eligible Loans | 96,643 | 554 | 97,197 | - | (3,789) | 93,408 | 5.89 % | 5.70 % | 5.49 |
| Re- and Non-Performing Loans | 3,883 | (2,035) | 1,848 | 2,047 | - | 3,895 | N/A | 63.09 % | 1.83 |
| Total Residential mortgage loans, at fair value | \$ 845,137 | \$ (8,512) | \$ 836,625 | \$ 5,795 | \$ (58,649) | \$ 783,771 | 5.43 % | 5.69 % | 6.42 |
| Total as of September 30, 2022 | \$ 4,616,008 | \$ 11,135 | \$ 4,627,143 | \$ 7,848 | \$ (431,812) | \$ 4,203,179 | 4.70 % | 4.87 % | 8.98 |
| December 31, 2021 | Unpaid Principal Balance | Premium (Discount) | Amortized Cost | Gross Unrealized | | Fair Value | Weighted Average | | |
| | | | | Gains | Losses | | Coupon | Yield | Life (Years) (1) |
| Securitized residential mortgage loans, at fair value (2) | | | | | | | | | |
| Non-Agency Loans | \$ 777,828 | \$ 30,739 | \$ 808,567 | \$ 5,821 | \$ (1,005) | \$ 813,383 | 5.13 % | 3.96 % | 4.50 |
| Re- and Non-Performing Loans | 377,923 | (44,971) | 332,952 | 14,914 | (3,115) | 344,751 | 3.55 % | 5.90 % | 7.17 |
| Total Securitized residential mortgage loans, at fair value | \$ 1,155,751 | \$ (14,232) | \$ 1,141,519 | \$ 20,735 | \$ (4,120) | \$ 1,158,134 | 4.61 % | 4.53 % | 5.37 |
| Residential mortgage loans, at fair value | | | | | | | | | |
| Non-Agency Loans | \$ 987,290 | \$ 35,647 | \$ 1,022,937 | \$ 9,336 | \$ (1,458) | \$ 1,030,815 | 4.75 % | 3.76 % | 5.01 |
| Agency-Eligible Loans | 429,424 | 10,039 | 439,463 | 1,723 | (349) | 440,837 | 3.64 % | 3.19 % | 6.84 |
| Re- and Non-Performing Loans | 6,528 | (3,536) | 2,992 | 2,328 | - | 5,320 | N/A | 31.18 % | 2.24 |
| Total Residential mortgage loans, at fair value | \$ 1,423,242 | \$ 42,150 | \$ 1,465,392 | \$ 13,387 | \$ (1,807) | \$ 1,476,972 | 4.41 % | 3.69 % | 5.55 |
| Total as of December 31, 2021 | \$ 2,578,993 | \$ 27,918 | \$ 2,606,911 | \$ 34,122 | \$ (5,927) | \$ 2,635,106 | 4.50 % | 4.06 % | 5.47 |

- (1) This is based on projected life. Typically, actual maturities are shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgage loans, periodic payments of principal, and prepayments of principal.
- (2) Refer to the "Variable interest entities" section below for additional details related to the assets and liabilities of VIEs consolidated on the Company's consolidated balance sheets.

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The following tables present information regarding credit quality of the Company's residential mortgage loans (\$ in thousands).

| September 30, 2022 | Unpaid Principal Balance | Loan Count (1) | Weighted Average (1)(2) | | Aging by Unpaid Principal Balance (1)(3) | | | |
|---|--------------------------|----------------|-------------------------|------------------|--|------------------|------------------|------------------|
| | | | Original LTV Ratio | Current FICO (4) | Current | 30-59 Days | 60-89 Days | 90+ Days |
| Securitized residential mortgage loans | | | | | | | | |
| Non-Agency Loans | \$ 2,171,845 | 4,380 | 69.35 % | 731 | \$ 2,133,670 | \$ 26,433 | \$ 4,419 | \$ 7,323 |
| Agency-Eligible Loans | 1,263,827 | 3,876 | 66.28 % | 760 | 1,253,858 | 9,969 | - | - |
| Re- and Non-Performing Loans | 335,199 | 2,298 | 79.62 % | 640 | 237,314 | 30,534 | 10,973 | 56,378 |
| Total Securitized residential mortgage loans | 3,770,871 | 10,554 | 69.23 % | 732 | 3,624,842 | 66,936 | 15,392 | 63,701 |
| Residential mortgage loans | | | | | | | | |
| Non-Agency Loans | 744,611 | 1,245 | 68.91 % | 736 | 729,120 | 3,872 | 4,690 | 6,929 |
| Agency-Eligible Loans | 96,643 | 293 | 70.28 % | 762 | 96,292 | - | 351 | - |
| Re- and Non-Performing Loans (1) | 3,883 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total Residential mortgage loans | 845,137 | 1,538 | 69.06 % | 739 | 825,412 | 3,872 | 5,041 | 6,929 |
| Total as of September 30, 2022 | \$ 4,616,008 | 12,092 | 69.20 % | 734 | \$ 4,450,254 | \$ 70,808 | \$ 20,433 | \$ 70,630 |

| December 31, 2021 | Unpaid Principal Balance | Loan Count (1) | Weighted Average (1)(2) | | Aging by Unpaid Principal Balance (1)(3) | | | |
|---|--------------------------|----------------|-------------------------|------------------|--|------------------|------------------|------------------|
| | | | Original LTV Ratio | Current FICO (4) | Current | 30-59 Days | 60-89 Days | 90+ Days |
| Securitized residential mortgage loans | | | | | | | | |
| Non-Agency Loans | \$ 777,828 | 1,562 | 68.03 % | 733 | \$ 767,734 | \$ 6,495 | \$ 1,036 | \$ 2,563 |
| Re- and Non-Performing Loans | 377,923 | 2,540 | 79.20 % | 639 | 256,094 | 35,974 | 12,324 | 73,531 |
| Total Securitized residential mortgage loans | 1,155,751 | 4,102 | 71.68 % | 697 | 1,023,828 | 42,469 | 13,360 | 76,094 |
| Residential mortgage loans | | | | | | | | |
| Non-Agency Loans | 987,290 | 1,886 | 69.39 % | 737 | 967,910 | 9,101 | 1,630 | 8,649 |
| Agency-Eligible Loans | 429,424 | 1,339 | 65.44 % | 754 | 425,594 | 3,830 | - | - |
| Re- and Non-Performing Loans (1) | 6,528 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total Residential mortgage loans | 1,423,242 | 3,225 | 68.19 % | 742 | 1,393,504 | 12,931 | 1,630 | 8,649 |
| Total as of December 31, 2021 | \$ 2,578,993 | 7,327 | 69.76 % | 723 | \$ 2,417,332 | \$ 55,400 | \$ 14,990 | \$ 84,743 |

- (1) Loan count, weighted average, and aging data excludes the Re- and Non-Performing Loans subcategory of Residential mortgage loans above as there may be limited data available regarding the underlying collateral of these residual positions.
- (2) Amounts are weighted based on unpaid principal balance.
- (3) As of September 30, 2022, the Company had residential mortgage loans that were 90+ days delinquent and loans in the process of foreclosure with a fair value of \$23.2 million and \$39.0 million, respectively. As of December 31, 2021, the Company had residential mortgage loans that were 90+ days delinquent and loans in the process of foreclosure with a fair value of \$47.4 million and \$29.0 million, respectively.
- (4) Weighted average current FICO excludes borrowers where FICO scores were not available.

During the three and nine months ended September 30, 2022, the Company purchased Non-Agency Loans and Agency-Eligible Loans, as detailed below (in thousands). A portion of these loans were purchased from Arc Home. See Note 10 for more detail.

| | Three Months Ended September 30, 2022 | | Nine Months Ended September 30, 2022 | |
|-----------------------|---------------------------------------|-------------------|--------------------------------------|---------------------|
| | Unpaid Principal Balance | Fair Value | Unpaid Principal Balance | Fair Value |
| Non-Agency Loans | \$ 515,592 | \$ 510,328 | \$ 1,441,292 | \$ 1,450,892 |
| Agency-Eligible Loans | 386,003 | 381,256 | 993,126 | 986,734 |
| Total | \$ 901,595 | \$ 891,584 | \$ 2,434,418 | \$ 2,437,626 |

The Company did not sell any residential mortgage loans during the three and nine months ended September 30, 2022 or the three months ended September 30, 2021. For the nine months ended September 30, 2021, the Company sold residential mortgage loans as detailed below (\$ in thousands).

| | Number of Loans | Proceeds | Realized Gains | Realized Losses |
|--|-----------------|-----------|----------------|-----------------|
| Nine months ended September 30, 2021 (1) | 368 | \$ 47,219 | \$ 8,166 | \$ (350) |

(1) Includes \$1.6 million of proceeds on one residual position where the Company previously consolidated the securitization.

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The Company's residential mortgage loan portfolio consisted of mortgage loans on residential real estate located throughout the United States. The following is a summary of the geographic concentration of credit risk as of September 30, 2022 and December 31, 2021 and includes states where the exposure is greater than 5% of the fair value the Company's residential mortgage loan portfolio.

| Geographic Concentration of Credit Risk (1) | September 30, 2022 | December 31, 2021 |
|--|---------------------------|--------------------------|
| California | 33 % | 35 % |
| New York | 16 % | 15 % |
| Florida | 10 % | 11 % |
| New Jersey | 6 % | 6 % |

(1) Excludes the Re- and Non-Performing Loans subcategory of Residential mortgage loans above as there may be limited data available regarding the underlying collateral of these residual positions.

The following is a summary of the changes in the accretable portion of the discount for the Company's securitized re-performing and non-performing loan portfolios for the three and nine months ended September 30, 2022 and 2021, which is determined by the Company's estimate of undiscounted principal expected to be collected in excess of the amortized cost of the mortgage loan (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Beginning Balance | \$ 43,901 | \$ 51,672 | \$ 46,521 | \$ 56,907 |
| Accretion | (1,587) | (1,318) | (5,012) | (3,669) |
| Reclassifications from/(to) non-accretable difference | 1,579 | (3,548) | 2,384 | (871) |
| Disposals | (141) | (42) | (141) | (5,603) |
| Ending Balance | \$ 43,752 | \$ 46,764 | \$ 43,752 | \$ 46,764 |

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Variable interest entities

The following table details certain information related to the assets and liabilities of the Residential Mortgage Loan VIEs as of September 30, 2022 and December 31, 2021 (\$ in thousands).

| | September 30, 2022 | | | December 31, 2021 | | |
|---|--------------------|------------------|---------------------|-------------------|------------------|---------------------|
| | Carrying Value | Weighted Average | | Carrying Value | Weighted Average | |
| | | Yield | Life (Years) (1) | | Yield | Life (Years) (1) |
| Assets | | | | | | |
| Non-Agency VIEs | \$ 1,998,006 | 4.68 % | 10.08 | \$ 813,383 | 3.96 % | 4.50 |
| Agency-Eligible VIEs | 1,142,145 | 4.07 % | 9.84 | - | - | - |
| RPL/NPL VIEs | 279,257 | 7.14 % | 5.02 | 344,751 | 5.90 % | 7.17 |
| Securitized residential mortgage loans, at fair value | \$ 3,419,408 | 4.68 % | 9.55 | \$ 1,158,134 | 4.53 % | 5.37 |
| Restricted cash | 1,236 | | | 1,467 | | |
| Other assets | 15,873 | | | 6,457 | | |
| Total Assets | \$ 3,436,517 | | | \$ 1,166,058 | | |
| Liabilities | | | | | | |
| Non-Agency VIEs | \$ 1,786,806 | 3.72 % | 6.35 | \$ 746,970 | 1.63 % | 2.36 |
| Agency-Eligible VIEs | 1,047,059 | 3.91 % | 9.29 | - | - | - |
| RPL/NPL VIEs | 191,263 | 3.09 % | 2.21 | 252,245 | 3.06 % | 3.75 |
| Securitized debt, at fair value (2) | \$ 3,025,128 | 3.75 % | 7.20 | \$ 999,215 | 2.00 % | 2.71 |
| Other liabilities | 9,586 | | | 1,482 | | |
| Total Liabilities | \$ 3,034,714 | | | \$ 1,000,697 | | |
| Total Equity (3) | \$ 401,803 | | | \$ 165,361 | | |

- (1) This is based on projected life. Typically, actual maturities are shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.
- (2) The holders of the securitized debt have no recourse to the general credit of the Company. The Company has no obligation to provide any other explicit or implicit support to the Residential Mortgage Loan VIEs.
- (3) As of September 30, 2022 and December 31, 2021, the Company had outstanding financing arrangements of \$211.5 million and \$71.3 million, respectively, collateralized by certain of the Company's retained interests in the Residential Mortgage Loan VIEs. See Note 6 for more detail regarding the Company's financing arrangements.

Commercial loans

As of September 30, 2022 and December 31, 2021, the Company did not hold any commercial loans.

During the first quarter of 2021, the Company sold two commercial loans for total proceeds of \$74.3 million, recording realized losses of \$2.9 million. During the third quarter of 2021, the Company's two remaining commercial loans were repaid in full for total proceeds of \$74.1 million, recording realized gains of \$0.4 million. In connection with the repayment of one of these loans, the Company received \$3.0 million of deferred interest for the 12-month period following a loan modification entered into with the borrower during the fourth quarter of 2020.

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4.
Real Estate Securities

The following tables detail the Company's real estate securities portfolio as of September 30, 2022 and December 31, 2021 (\$ in thousands). The gross unrealized gains/(losses) in the tables below represent inception to date unrealized gains/(losses).

| September 30, 2022 | Current Face | Premium / (Discount) | Amortized Cost | Gross Unrealized | | Fair Value | Weighted Average | |
|---------------------------------------|-------------------|----------------------|-------------------|------------------|-------------------|-------------------|------------------|----------------|
| | | | | Gains | Losses | | Coupon (1) | Yield |
| Non-Agency RMBS | | | | | | | | |
| Agency-Eligible Securities | \$ 16,897 | \$ (6,762) | \$ 10,135 | \$ 169 | \$ (110) | \$ 10,194 | 2.99 % | 8.50 % |
| Non-Agency Securities (2) | 14,894 | (210) | 14,684 | - | (4,486) | 10,198 | 4.35 % | 4.58 % |
| Non-Agency RMBS Interest Only (2) | 111,990 | (109,080) | 2,910 | 2,011 | - | 4,921 | 0.38 % | 33.04 % |
| Total Non-Agency RMBS | 143,781 | (116,052) | 27,729 | 2,180 | (4,596) | 25,313 | 1.55 % | 11.69 % |
| Agency RMBS | | | | | | | | |
| Interest Only | 130,457 | (110,124) | 20,333 | 29 | (819) | 19,543 | 2.97 % | 7.48 % |
| Total as of September 30, 2022 | \$ 274,238 | \$ (226,176) | \$ 48,062 | \$ 2,209 | \$ (5,415) | \$ 44,856 | 2.40 % | 9.86 % |
| December 31, 2021 | Current Face | Premium / (Discount) | Amortized Cost | Gross Unrealized | | Fair Value | Weighted Average | |
| | | | | Gains | Losses | | Coupon (1) | Yield |
| Non-Agency RMBS | | | | | | | | |
| Non-Agency Securities (2) | \$ 14,894 | \$ (236) | \$ 14,658 | \$ - | \$ (58) | \$ 14,600 | 4.36 % | 4.74 % |
| Non-Agency RMBS Interest Only (2) | 160,154 | (156,647) | 3,507 | - | (112) | 3,395 | 0.38 % | 10.12 % |
| Re/Non-Performing Securities | 696 | (24) | 672 | 90 | - | 762 | 5.25 % | 29.69 % |
| Total Non-Agency RMBS | 175,744 | (156,907) | 18,837 | 90 | (170) | 18,757 | 1.02 % | 6.73 % |
| Agency RMBS | | | | | | | | |
| 30 Year Fixed Rate | 490,435 | 11,927 | 502,362 | - | (6,649) | 495,713 | 2.18 % | 1.78 % |
| Total as of December 31, 2021 | \$ 666,179 | \$ (144,980) | \$ 521,199 | \$ 90 | \$ (6,819) | \$ 514,470 | 1.99 % | 1.96 % |

- (1) Equity residual investments with a zero coupon rate are excluded from this calculation.
(2) Comprised of Non-QM securities and Non-QM interest-only bonds.

The following tables summarize the Company's real estate securities according to their projected weighted average life classifications as of September 30, 2022 and December 31, 2021 (\$ in thousands).

| September 30, 2022 | Non-Agency RMBS | | | Agency RMBS | | |
|---|------------------|------------------|-----------------------------|-------------------|-------------------|-------------------------|
| | Fair Value | Amortized Cost | Weighted Average Coupon (2) | Fair Value | Amortized Cost | Weighted Average Coupon |
| Weighted Average Life (1) | | | | | | |
| Greater than one year and less than or equal to five years | \$ 4,921 | \$ 2,910 | 0.38 % | \$ - | \$ - | - % |
| Greater than five years and less than or equal to ten years | - | - | - % | 19,543 | 20,333 | 2.97 % |
| Greater than ten years | 20,392 | 24,819 | 3.62 % | - | - | - % |
| Total as of September 30, 2022 | \$ 25,313 | \$ 27,729 | 1.55 % | \$ 19,543 | \$ 20,333 | 2.97 % |
| December 31, 2021 | Non-Agency RMBS | | | Agency RMBS | | |
| | Fair Value | Amortized Cost | Weighted Average Coupon (2) | Fair Value | Amortized Cost | Weighted Average Coupon |
| Weighted Average Life (1) | | | | | | |
| Less than or equal to 1 year | \$ 543 | \$ 511 | 5.25 % | \$ - | \$ - | - % |
| Greater than one year and less than or equal to five years | 18,214 | 18,326 | 1.00 % | - | - | - % |
| Greater than five years and less than or equal to ten years | - | - | - % | 474,104 | 480,204 | 2.19 % |
| Greater than ten years | - | - | - % | 21,609 | 22,158 | 2.00 % |
| Total as of December 31, 2021 | \$ 18,757 | \$ 18,837 | 1.02 % | \$ 495,713 | \$ 502,362 | 2.18 % |

- (1) This is based on projected life. Typically, actual maturities are shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.
(2) Equity residual investments securities with a zero coupon rate are excluded from this calculation.

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During the three and nine months ended September 30, 2022 and 2021, the Company sold real estate securities, as summarized below (\$ in thousands).

| | Three Months Ended | | | | Nine Months Ended | | | |
|--------------------|----------------------|-----------|----------------|-----------------|----------------------|------------|----------------|-----------------|
| | Number of Securities | Proceeds | Realized Gains | Realized Losses | Number of Securities | Proceeds | Realized Gains | Realized Losses |
| September 30, 2022 | 2 | \$ 13,017 | \$ 168 | - | 18 | \$ 526,258 | \$ 736 | \$ (35,240) |
| September 30, 2021 | 4 | 202,819 | - | (4,795) | 73 | 760,689 | 12,355 | (22,032) |

5.
Fair value measurements

The following tables present the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021 (in thousands).

| | Fair Value at September 30, 2022 | | | |
|--|----------------------------------|------------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Securitized residential mortgage loans | \$ - | \$ - | \$ 3,419,408 | \$ 3,419,408 |
| Residential mortgage loans | - | 814 | 782,957 | 783,771 |
| Non-Agency RMBS (1) | - | 10,194 | 10,198 | 20,392 |
| Non-Agency RMBS Interest Only | - | - | 4,921 | 4,921 |
| Agency Interest Only | - | 19,543 | - | 19,543 |
| Derivative assets (2) | - | 38,413 | 340 | 38,753 |
| AG Arc (3) | - | - | 46,588 | 46,588 |
| Total Assets Measured at Fair Value | \$ - | \$ 68,964 | \$ 4,264,412 | \$ 4,333,376 |

| | | | | |
|---|-------------|-------------|-----------------------|-----------------------|
| Liabilities: | | | | |
| Securitized debt | \$ - | \$ - | \$ (3,025,128) | \$ (3,025,128) |
| Derivative liabilities | - | - | (1,543) | (1,543) |
| Total Liabilities Measured at Fair Value | \$ - | \$ - | \$ (3,026,671) | \$ (3,026,671) |

| | Fair value at December 31, 2021 | | | |
|--|---------------------------------|-------------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Securitized residential mortgage loans | \$ - | \$ - | \$ 1,158,134 | \$ 1,158,134 |
| Residential mortgage loans | - | 915 | 1,476,057 | 1,476,972 |
| Non-Agency RMBS (1) | - | - | 15,362 | 15,362 |
| Non-Agency RMBS Interest Only | - | - | 3,395 | 3,395 |
| 30 Year Fixed Rate Agency RMBS | - | 495,713 | - | 495,713 |
| Derivative assets (2) | - | 19,781 | - | 19,781 |
| AG Arc (3) | - | - | 53,435 | 53,435 |
| Total Assets Measured at Fair Value | \$ - | \$ 516,409 | \$ 2,706,383 | \$ 3,222,792 |

| | | | | |
|---|-------------|-----------------|---------------------|-----------------------|
| Liabilities: | | | | |
| Securitized debt | \$ - | \$ - | \$ (999,215) | \$ (999,215) |
| Derivative liabilities (2) | - | (897) | (79) | (976) |
| Total Liabilities Measured at Fair Value | \$ - | \$ (897) | \$ (999,294) | \$ (1,000,191) |

- (1) Non-Agency RMBS is comprised of Non-Agency, Agency-Eligible, and Re/Non-Performing Securities.
- (2) As of September 30, 2022, the Company applied a reduction in fair value of \$38.3 million to its interest rate swap assets related to variation margin with a corresponding increase in restricted cash, net of collateral posted by the Company's derivative counterparties. As of December 31, 2021, the Company applied a reduction in fair value of \$19.6 million and \$0.9 million to its interest rate swap assets and liabilities, respectively, related to variation margin with a corresponding increase or decrease in

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restricted cash, respectively. Derivative assets and liabilities are included in the "Other assets" and "Other liabilities" line items on the consolidated balance sheets, respectively. Refer to Note 2 and Note 7 for more information on the Company's accounting policies with regard to derivatives.

- (3) Refer to Note 2 for more information on the Company's accounting policies with regard to AG Arc. The table above includes the Company's investment in AG Arc, which is included in its "Investments in debt and equity of affiliates" line item on the consolidated balance sheets, as the Company has chosen to elect the fair value option with respect to its investment pursuant to ASC 825.

The valuation of the Company's residential mortgage loans, securitized debt relating to the Residential Mortgage Loan VIEs, certain securities, and forward purchase commitments is determined by the Manager using third-party pricing services where available, valuation analyses from third-party pricing service providers, or model-based pricing. Third-party pricing service providers conduct independent valuation analyses based on a review of source documents, available market data, and comparable investments. The analyses provided by valuation service providers are reviewed and considered by the Manager. The evaluation considers the underlying characteristics of each loan, which are observable inputs, including: coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. The Company also considers loan servicing data, as available, forward interest rates, general economic conditions, home price index forecasts, and valuations of the underlying properties. The variables considered most significant to the determination of the fair value of the Company's residential mortgage loans, securitized debt, and forward purchase commitments include market-implied discount rates, projections of default rates, delinquency rates, prepayment rates, loss severity, recovery rates, reperformance rates, timeline to liquidation, and, for forward purchase commitments, pull-through rates. The Company and third-party pricing service providers use loan level data and macro-economic inputs to generate loss adjusted cash flows and other information in determining the fair value. Because of the inherent uncertainty of such valuation, the fair value established for mortgage loans, securitized debt, and forward purchase commitments held by the Company may differ from the fair value that would have been established if a ready market existed for these mortgage loans.

Fair values for the Company's securities and derivatives may be based upon prices obtained from third-party pricing services or broker quotations. The valuation methodology of the Company's third-party pricing services incorporates commonly used market pricing methods, including a spread measurement to various indices, which are observable inputs. The evaluation also considers the underlying characteristics of each investment, which are also observable inputs, including: coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. As part of the Company's risk management process, the Company reviews and analyzes all prices obtained by comparing prices to recently completed transactions involving the same or similar investments on or near the reporting date. If, in the opinion of the Manager, one or more prices reported to the Company are not reliable or unavailable, the Manager reviews the fair value based on characteristics of the investment it receives from the issuer and available market information.

The Company's investment in Arc Home is evaluated on a periodic basis using a market approach. In applying the market approach, fair value is determined by multiplying Arc Home's book value by a relevant valuation multiple observed based on a range of comparable public entities or transactions, adjusted by management as appropriate for differences between the investment and the referenced comparables. The evaluation also considers the underlying financial performance of Arc Home, general economic conditions, and relevant trends within the mortgage banking industry.

Changes in the market environment and other events that may occur over the life of these investments may cause the gains or losses ultimately realized to be different than the valuations currently estimated. If applicable, analyses provided by valuation service providers are reviewed and considered by the Manager. The significant unobservable inputs used in the fair value measurement of the Company's loans and securities are yields, prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates. The significant unobservable input used in the fair value measurement of the Company's investment in Arc Home is the book value multiple. Significant increases (decreases) in the multiple applied would result in a significantly higher (lower) fair value measurement.

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and nine months ended September 30, 2022 and 2021.

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Refer to the tables below for details on transfers between the Level 3 and Level 2 categories under ASC 820. Transfers into the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of reduced levels of market transparency. Transfers out of the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of increased levels of market transparency. Indications of increases or decreases in levels of market transparency include a change in observable transactions or executable quotes involving these instruments or similar instruments. Changes in these indications could impact price transparency, and thereby cause a change in level designations in future periods.

The following tables present additional information about the Company's assets and liabilities which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value.

Three Months Ended September 30, 2022 (in thousands)

| | Residential Mortgage Loans (1) | Non-Agency RMBS | Non-Agency RMBS Interest Only | Derivative assets | AG Arc | Securitized debt | Derivative liabilities |
|-------------------------------|-----------------------------------|--------------------|----------------------------------|-------------------|-----------|---------------------|---------------------------|
| Beginning balance | \$ 3,569,557 | \$ 11,265 | \$ 4,314 | \$ 2,211 | \$ 50,170 | \$ (2,467,766) | \$ (7,058) |
| Purchases | 883,256 | - | - | - | - | - | - |
| Issuances of Securitized Debt | - | - | - | - | - | (763,294) | - |
| Capital distributions | - | - | - | - | (1,070) | - | - |
| Proceeds from settlement | (95,895) | (43) | - | (1,792) | - | 82,826 | 6,709 |
| Total net gains/(losses) (2) | | | | | | | |
| Included in net income | (154,553) | (1,024) | 607 | (79) | (2,512) | 123,106 | (1,194) |
| Ending Balance | \$ 4,202,365 | \$ 10,198 | \$ 4,921 | \$ 340 | \$ 46,588 | \$ (3,025,128) | \$ (1,543) |

| | | | | | | | |
|---|--------------|------------|--------|--------|------------|------------|------------|
| Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of September 30, 2022 (3) | \$ (153,687) | \$ (1,019) | \$ 607 | \$ 340 | \$ (2,512) | \$ 123,106 | \$ (1,543) |
|---|--------------|------------|--------|--------|------------|------------|------------|

(1) Includes Securitized residential mortgage loans.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | |
|---|-------------|
| Net unrealized gain/(loss) | \$ (28,345) |
| Net realized gain/(loss) | (4,792) |
| Equity in earnings/(loss) from affiliates | (2,512) |
| Total | \$ (35,649) |

(3) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | |
|---|-------------|
| Net unrealized gain/(loss) | \$ (32,082) |
| Equity in earnings/(loss) from affiliates | (2,512) |
| Total | \$ (34,594) |

Three Months Ended September 30, 2021 (in thousands)

| | Residential Mortgage Loans (1) | Non-Agency RMBS | Commercial Loans | Excess Mortgage Servicing Rights | Derivative Assets | AG Arc | Securitized debt | Derivative Liabilities |
|-------------------------------|-----------------------------------|--------------------|---------------------|-------------------------------------|----------------------|-----------|---------------------|---------------------------|
| Beginning balance | \$ 1,028,378 | \$ 1,183 | \$ 62,279 | \$ 2,608 | \$ - | \$ 50,862 | \$ (482,533) | \$ - |
| Purchases/Transfers | 608,771 | - | - | - | - | - | - | - |
| Issuances of Securitized Debt | - | - | - | - | - | - | (260,086) | - |
| Capital distributions | - | - | - | - | - | (893) | - | - |
| Proceeds from sales of assets | - | - | - | (2,364) | - | - | - | - |
| Proceeds from settlement | (42,095) | (396) | (70,195) | - | - | - | 34,407 | - |
| Total net gains/(losses) (2) | | | | | | | | |
| Included in net income | 11,137 | (27) | 7,916 | (174) | 841 | 1,980 | (209) | (46) |
| Ending Balance | \$ 1,606,191 | \$ 760 | \$ - | \$ 70 | \$ 841 | \$ 51,949 | \$ (708,421) | \$ (46) |

| | | | | | | | | |
|---|-----------|---------|------|--------|--------|----------|----------|---------|
| Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of September 30, 2021 (3) | \$ 10,880 | \$ (27) | \$ - | \$ 523 | \$ 841 | \$ 1,980 | \$ (209) | \$ (46) |
|---|-----------|---------|------|--------|--------|----------|----------|---------|

(1) Includes Securitized residential mortgage loans.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

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| | | |
|---|-----------|---------------|
| Net unrealized gain/(loss) | \$ | 20,389 |
| Net realized gain/(loss) | | (951) |
| Equity in earnings/(loss) from affiliates | | 1,980 |
| Total | \$ | 21,418 |

(3) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | | |
|---|-----------|---------------|
| Net unrealized gain/(loss) | \$ | 11,962 |
| Equity in earnings/(loss) from affiliates | | 1,980 |
| Total | \$ | 13,942 |

Nine Months Ended September 30, 2022 (in thousands)

| | Residential Mortgage Loans (1) | Non-Agency RMBS | Non-Agency RMBS Interest Only | Derivative assets | AG Arc | Securitized debt | Derivative liabilities |
|-------------------------------------|-----------------------------------|--------------------|----------------------------------|-------------------|------------------|-----------------------|---------------------------|
| Beginning balance | \$ 2,634,191 | \$ 15,362 | \$ 3,395 | \$ - | \$ 53,435 | \$ (999,215) | \$ (79) |
| Purchases | 2,416,221 | - | - | - | - | - | - |
| Issuances of Securitized Debt | - | - | - | - | - | (2,650,616) | - |
| Capital distributions | - | - | - | - | (1,070) | - | - |
| Proceeds from settlement | (393,170) | (664) | - | (2,208) | - | 320,502 | 14,514 |
| Total net gains/(losses) (2) | | | | | | | |
| Included in net income | (454,877) | (4,500) | 1,526 | 2,548 | (5,777) | 304,201 | (15,978) |
| Ending Balance | \$ 4,202,365 | \$ 10,198 | \$ 4,921 | \$ 340 | \$ 46,588 | \$ (3,025,128) | \$ (1,543) |

| | | | | | | | | | | | | | | |
|---|----|-----------|----|---------|----|-------|----|-----|----|---------|----|---------|----|---------|
| Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of September 30, 2022 (3) | \$ | (455,293) | \$ | (4,401) | \$ | 1,526 | \$ | 340 | \$ | (5,777) | \$ | 304,201 | \$ | (1,543) |
|---|----|-----------|----|---------|----|-------|----|-----|----|---------|----|---------|----|---------|

(1) Includes Securitized residential mortgage loans.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | | |
|---|-----------|------------------|
| Net unrealized gain/(loss) | \$ | (154,843) |
| Net realized gain/(loss) | | (12,237) |
| Equity in earnings/(loss) from affiliates | | (5,777) |
| Total | \$ | (172,857) |

(3) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | | |
|---|-----------|------------------|
| Net unrealized gain/(loss) | \$ | (155,170) |
| Equity in earnings/(loss) from affiliates | | (5,777) |
| Total | \$ | (160,947) |

Nine Months Ended September 30, 2021 (in thousands)

| | Residential Mortgage Loans (1) | Non-Agency RMBS | Commercial Loans | Excess Mortgage Servicing Rights | Derivative assets | AG Arc | Securitized debt | Derivative liabilities |
|-------------------------------------|-----------------------------------|--------------------|---------------------|-------------------------------------|----------------------|------------------|---------------------|---------------------------|
| Beginning balance | \$ 433,307 | \$ 3,100 | \$ 125,508 | \$ 3,158 | \$ - | \$ 45,341 | \$ (355,159) | \$ - |
| Transfers (2): | | | | | | | | |
| Transfers out of level 3 | - | (1,499) | - | - | - | - | - | - |
| Purchases | 1,261,568 | - | 5,100 | - | - | - | - | - |
| Issuances of Securitized Debt | - | - | - | - | - | - | (463,478) | - |
| Capital distributions | - | - | - | - | - | (893) | - | - |
| Proceeds from sales of assets | (45,615) | - | (74,342) | (2,364) | - | - | - | - |
| Proceeds from settlement | (75,746) | (897) | (70,232) | - | - | - | 113,338 | - |
| Total net gains/(losses) (3) | | | | | | | | |
| Included in net income | 32,677 | 56 | 13,966 | (724) | 841 | 7,501 | (3,122) | (46) |
| Ending Balance | \$ 1,606,191 | \$ 760 | \$ - | \$ 70 | \$ 841 | \$ 51,949 | \$ (708,421) | \$ (46) |

| | | | | | | | | | | | | | | | | |
|---|----|--------|----|----|----|---|----|------|----|-----|----|-------|----|---------|----|------|
| Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of September 30, 2021 (4) | \$ | 25,481 | \$ | 56 | \$ | - | \$ | (27) | \$ | 841 | \$ | 7,501 | \$ | (3,122) | \$ | (46) |
|---|----|--------|----|----|----|---|----|------|----|-----|----|-------|----|---------|----|------|

(1) Includes Securitized residential mortgage loans.

(2) Transfers are assumed to occur at the beginning of the period. During the nine months ended September 30, 2021, the Company transferred one Non-Agency RMBS into the Level 2 category from the Level 3 category under the fair value hierarchy of ASC 820.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

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| | | |
|---|----|--------|
| Net unrealized gain/(loss) | \$ | 40,472 |
| Net realized gain/(loss) | | 3,176 |
| Equity in earnings/(loss) from affiliates | | 7,501 |
| Total | \$ | 51,149 |

(4) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

| | | |
|---|----|--------|
| Net unrealized gain/(loss) | \$ | 23,183 |
| Equity in earnings/(loss) from affiliates | | 7,501 |
| Total | \$ | 30,684 |

The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of investments for which the Company has utilized Level 3 inputs to determine fair value.

| Asset Class | Fair Value at September 30, 2022 (in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|--|---|----------------------|----------------------------------|------------------------------|
| Securitized residential mortgage loans | \$ 3,419,408 | Discounted Cash Flow | Yield | 4.75% - 6.66% (5.89%) |
| | | | Projected Collateral Prepayments | 5.31% - 16.78% (6.76%) |
| | | | Projected Collateral Losses | 0.03% - 1.38% (0.19%) |
| | | | Projected Collateral Severities | -1.63% - 20.00% (14.88%) |
| Residential mortgage loans | \$ 779,876 | Discounted Cash Flow | Yield | 6.19% - 7.88% (6.82%) |
| | | | Projected Collateral Prepayments | 2.79% - 26.25% (14.89%) |
| | | | Projected Collateral Losses | 0.00% - 17.33% (0.28%) |
| | | | Projected Collateral Severities | -14.20% - 10.00% (9.77%) |
| Non-Agency RMBS | \$ 3,081 | Consensus Pricing | Offered Quotes | 93.98 - 109.03 (102.53) |
| | | | Yield | 6.45% - 11.85% (8.92%) |
| | | | Projected Collateral Prepayments | 8.55% - 8.55% (8.55%) |
| | | | Projected Collateral Losses | 0.19% - 0.19% (0.19%) |
| Non-Agency RMBS Interest Only | \$ 10,198 | Discounted Cash Flow | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| | | | Yield | 10.00% - 14.00% (13.32%) |
| | | | Projected Collateral Prepayments | 8.55% - 8.55% (8.55%) |
| | | | Projected Collateral Losses | 0.19% - 0.19% (0.19%) |
| Derivative assets | \$ 4,921 | Discounted Cash Flow | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| | | | Yield | 6.55% - 8.53% (7.25%) |
| | | | Projected Collateral Prepayments | 10.83% - 34.73% (23.47%) |
| | | | Projected Collateral Losses | 0.01% - 1.66% (0.49%) |
| AG Arc | \$ 340 | Discounted Cash Flow | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| | | | Pull Through Percentages | 45.00% - 100.00% (73.63%) |
| | | | Book Value Multiple | 0.94x - 0.94x (0.94x) |
| | | | Yield | 6.55% - 8.53% (7.25%) |
| Liability Class | Fair Value at September 30, 2022 (in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
| Securitized debt | \$ (3,025,128) | Discounted Cash Flow | Yield | 4.86% - 15.00% (5.59%) |
| | | | Projected Collateral Prepayments | 5.31% - 16.78% (6.67%) |
| | | | Projected Collateral Losses | 0.03% - 6.97% (1.00%) |
| | | | Projected Collateral Severities | -1.63% - 20.00% (15.26%) |
| Derivative liabilities | \$ (1,543) | Discounted Cash Flow | Yield | 6.46% - 7.54% (6.86%) |
| | | | Projected Collateral Prepayments | 9.04% - 31.75% (21.86%) |
| | | | Projected Collateral Losses | 0.00% - 1.02% (0.13%) |
| | | | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| | | | Pull Through Percentages | 45.00% - 100.00% (89.70%) |

(1) Amounts are weighted based on fair value.

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| Asset Class | Fair Value at December 31, 2021 (in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|--|--|----------------------|----------------------------------|---------------------------------|
| Securitized residential mortgage loans | \$ 1,158,134 | Discounted Cash Flow | Yield | 2.26% - 13.00% (3.12%) |
| | | | Projected Collateral Prepayments | 4.75% - 11.05% (9.51%) |
| | | | Projected Collateral Losses | 0.38% - 4.40% (0.83%) |
| | | | Projected Collateral Severities | -18.08% - 29.11% (10.10%) |
| Residential mortgage loans | \$ 1,465,523 | Discounted Cash Flow | Yield | 2.77% - 7.50% (3.37%) |
| | | | Projected Collateral Prepayments | 0.00% - 25.89% (15.28%) |
| | | | Projected Collateral Losses | 0.00% - 15.37% (0.30%) |
| | | | Projected Collateral Severities | -14.86% - 10.00% (9.97%) |
| | | | \$ 4,405 | Consensus Pricing |
| | \$ 6,129 | Recent Transaction | Cost | N/A |
| Non-Agency RMBS | \$ 15,362 | Discounted Cash Flow | Yield | 3.42% - 15.00% (5.32%) |
| | | | Projected Collateral Prepayments | 5.70% - 12.99% (12.63%) |
| | | | Projected Collateral Losses | 0.23% - 2.66% (0.35%) |
| | | | Projected Collateral Severities | -43.98% - 10.00% (7.32%) |
| Non-Agency RMBS Interest Only | \$ 3,395 | Discounted Cash Flow | Yield | 10.00% - 12.50% (12.10%) |
| | | | Projected Collateral Prepayments | 12.99% - 12.99% (12.99%) |
| | | | Projected Collateral Losses | 0.23% - 0.23% (0.23%) |
| | | | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| AG Arc | \$ 53,435 | Comparable Multiple | Book Value Multiple | 1.06x - 1.06x (1.06x) |

| Liability Class | Fair Value at December 31, 2021 (in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|------------------------|--|----------------------|----------------------------------|---------------------------------|
| Securitized debt | \$ (999,215) | Discounted Cash Flow | Yield | 1.56% - 4.49% (2.15%) |
| | | | Projected Collateral Prepayments | 5.86% - 11.05% (9.66%) |
| | | | Projected Collateral Losses | 0.38% - 2.93% (0.83%) |
| | | | Projected Collateral Severities | 6.36% - 12.89% (10.15%) |
| Derivative liabilities | \$ (79) | Discounted Cash Flow | Yield | 3.02% - 3.11% (3.03%) |
| | | | Projected Collateral Prepayments | 14.08% - 15.14% (14.23%) |
| | | | Projected Collateral Losses | 0.15% - 0.20% (0.15%) |
| | | | Projected Collateral Severities | 10.00% - 10.00% (10.00%) |
| | | | Pull Through Percentages | 90.00% - 95.00% (90.69%) |

(1) Amounts are weighted based on fair value.

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6.
Financing arrangements

The following table presents a summary of the Company's financing arrangements as of September 30, 2022 and December 31, 2021 (\$ in thousands).

| | September 30, 2022 | | | | | | December 31, 2021 |
|--|--------------------|-----------------------|------------------|--------------|----------------------|---------------------|---------------------|
| | Carrying Value | Stated Maturity | Weighted Average | | Collateral (1)(2) | | Carrying Value |
| | | | Funding Cost | Life (Years) | Amortized Cost Basis | Fair Value | |
| Repurchase Agreements | | | | | | | |
| Securitized residential mortgage loans (3) | \$ 211,483 | Oct 2022 to Dec 2022 | 4.57 % | 0.08 | \$ 419,389 | \$ 371,094 | \$ 71,308 |
| Residential mortgage loans (4)(5) | 693,835 | Oct 2022 to Sept 2023 | 4.83 % | 0.60 | 834,777 | 779,876 | 1,286,287 |
| Non-Agency RMBS | 15,891 | Oct 2022 | 4.40 % | 0.05 | 27,729 | 25,313 | 10,213 |
| Agency RMBS | 14,556 | Oct 2022 | 3.41 % | 0.02 | 18,247 | 17,428 | 409,935 |
| Total Financing Arrangements | \$ 935,765 | | 4.74 % | 0.46 | \$ 1,300,142 | \$ 1,193,711 | \$ 1,777,743 |

- (1) The Company also had \$1.4 million and \$5.0 million of cash pledged under repurchase agreements as of September 30, 2022 and December 31, 2021, respectively.
- (2) Under the terms of the Company's financing agreements, the Company's financing counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.
- (3) Amounts pledged as collateral under Securitized residential mortgage loans include certain of the Company's retained interests in securitizations. Refer to Note 3 for more information on the Residential Mortgage Loan VIEs.
- (4) The Company's Residential mortgage loan financing arrangements include a maximum uncommitted borrowing capacity of \$2.6 billion on facilities used to finance Non-Agency and Agency-Eligible Loans.
- (5) The funding cost includes deferred financing costs. The weighted average stated rate on the Residential mortgage loans repurchase agreements was 4.82% as of September 30, 2022.

The following table presents contractual maturity information about the Company's borrowings under financing arrangements as of September 30, 2022 (\$ in thousands).

| Repurchase Agreements | Within 30 Days | | Over 30 Days to 3 Months | | Over 3 Months to 12 Months | | Total |
|--|----------------|----------------|--------------------------|---------------|----------------------------|----------------|-------------------|
| | \$ | 162,232 | \$ | 49,251 | \$ | - | |
| Securitized residential mortgage loans | \$ | 162,232 | \$ | 49,251 | \$ | - | 211,483 |
| Residential mortgage loans | | 993 | | - | | 692,842 | 693,835 |
| Non-Agency RMBS | | 15,891 | | - | | - | 15,891 |
| Agency RMBS | | 14,556 | | - | | - | 14,556 |
| Total Financing Arrangements | \$ | 193,672 | \$ | 49,251 | \$ | 692,842 | \$ 935,765 |

Counterparties

The Company had outstanding financing arrangements with six and five counterparties as of September 30, 2022 and December 31, 2021, respectively.

The following table presents information as of September 30, 2022 and December 31, 2021 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities (\$ in thousands).

| Counterparty | September 30, 2022 | | | December 31, 2021 | | |
|---|------------------------------|----------------------------------|------------------------------------|------------------------------|----------------------------------|------------------------------------|
| | Stockholders' Equity at Risk | Weighted Average Maturity (days) | Percentage of Stockholders' Equity | Stockholders' Equity at Risk | Weighted Average Maturity (days) | Percentage of Stockholders' Equity |
| Credit Suisse AG, Cayman Islands Branch | \$ 131,523 | 127 | 28.3 % | \$ 129,526 | 101 | 22.7 % |
| Barclays Capital Inc. | 67,514 | 86 | 14.5 % | 89,230 | 23 | 15.6 % |
| BofA Securities, Inc. | 35,718 | 191 | 7.7 % | 33,153 | 317 | 5.8 % |
| JP Morgan Securities, LLC | 26,989 | 291 | 5.8 % | (1) | (1) | (1) |

- (1) As of December 31, 2021, the Company had less than 1% of its equity at risk under financing arrangements with JP Morgan Securities, LLC.

Financial Covenants

The Company's financing arrangements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each financing arrangement, typical supplemental terms include requirements of minimum equity and liquidity, leverage ratios, and performance triggers. In

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addition, some of the financing arrangements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that the Company fails to comply with the covenants contained in these financing arrangements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the associated agreement. Financings pursuant to repurchase agreements and revolving facilities are generally recourse to the Company. As of September 30, 2022, the Company is in compliance with all of its financial covenants.

7.
Other assets and liabilities

The following table details certain information related to the Company's "Other assets" and "Other liabilities" line items on its consolidated balance sheet as of September 30, 2022 and December 31, 2021 (in thousands).

| | September 30, 2022 | December 31, 2021 |
|---------------------------------------|---------------------------|--------------------------|
| Other assets | | |
| Interest receivable | \$ 21,079 | \$ 14,263 |
| Derivative assets, at fair value | 472 | 231 |
| Other assets | 3,118 | 4,519 |
| Due from broker | 563 | 1,887 |
| Total Other assets | \$ 25,232 | \$ 20,900 |
| Other liabilities | | |
| Due to affiliates (1) | \$ 4,732 | \$ 4,106 |
| Interest payable | 11,363 | 2,925 |
| Derivative liabilities, at fair value | 1,543 | 92 |
| Purchase price payable on loans (2) | 794 | 87 |
| Accrued expenses | 3,365 | 2,169 |
| Due to broker | 92 | 990 |
| Total Other liabilities | \$ 21,889 | \$ 10,369 |

(1) Refer to Note 10 for more information.

(2) Represents the portion of the purchase price on certain Non-Agency and Agency-Eligible Loans that had not yet settled as of September 30, 2022 and December 31, 2021.

Derivatives

The following table presents the fair value of the Company's derivatives and other instruments and their balance sheet location as of September 30, 2022 and December 31, 2021 (in thousands).

| Derivatives and Other Instruments (1) | Balance Sheet Location | September 30, 2022 | December 31, 2021 |
|---|-------------------------------|---------------------------|--------------------------|
| Pay Fix/Receive Float Interest Rate Swap Agreements (2) | Other assets | \$ 132 | \$ 231 |
| Short TBAs | Other liabilities | - | (13) |
| Forward Purchase Commitments | Other assets | 340 | - |
| Forward Purchase Commitments | Other liabilities | (1,543) | (79) |

(1) As of September 30, 2022 and December 31, 2021, all derivatives held by the Company are not designated as hedges for accounting purposes.

(2) As of September 30, 2022, the Company applied a reduction in fair value of \$38.3 million to its interest rate swap assets related to variation margin with a corresponding increase in restricted cash, net of collateral posted by the Company's derivative counterparties. As of December 31, 2021, the Company applied a reduction in fair value of \$19.6 million and \$0.9 million to its interest rate swap assets and liabilities, respectively, related to variation margin with a corresponding increase or decrease in restricted cash, respectively.

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The following table summarizes information related to derivatives and other instruments (in thousands).

| Notional amount of non-hedge derivatives and other instruments: | Notional Currency | September 30, 2022 | | December 31, 2021 | |
|--|------------------------------|---------------------------|---------|--------------------------|---------|
| Pay Fix/Receive Float Interest Rate Swap Agreements (1) | USD | \$ | 684,000 | \$ | 888,500 |
| Short TBAs | USD | | - | | 385,963 |
| Forward Purchase Commitments | USD | | 118,743 | | 25,292 |

- (1) As of September 30, 2022, the Company's pay fix/receive float interest rate swaps had a weighted average pay-fixed rate of 2.65%, a weighted average receive-variable rate of 2.98%, and a weighted average years to maturity of 4.76 years. As of December 31, 2021, the Company's pay fix/receive float interest rate swaps had a weighted average pay-fixed rate of 0.85%, a weighted average receive-variable rate of 0.15%, and a weighted average years to maturity of 5.51 years.

Derivative and other instruments eligible for offset are presented gross on the consolidated balance sheets as of September 30, 2022 and December 31, 2021, if applicable. The Company has not offset or netted any derivatives or other instruments with any financial instruments or cash collateral posted or received.

The Company must post cash or securities as collateral on its derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. The posting of collateral is generally bilateral, meaning that if the fair value of the Company's derivatives increases, its counterparty will post collateral to it. As of September 30, 2022, the Company's restricted cash balance included \$19.2 million of collateral related to certain derivatives, of which \$0.4 million represents cash collateral posted by the Company and \$18.8 million represents amounts related to variation margin. As of December 31, 2021, the Company's restricted cash balance included \$25.7 million of collateral related to certain derivatives, of which \$7.0 million represents cash collateral posted by the Company and \$18.7 million represents amounts related to variation margin.

The following table summarizes gains/(losses) related to derivatives and other instruments (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| <u>Included within Net unrealized gain/(loss)</u> | | | | |
| Interest Rate Swaps | \$ (28,344) | \$ 10 | \$ 19,780 | \$ 12,565 |
| Long TBAs | 2,959 | - | - | - |
| Short TBAs | - | 1,290 | 13 | 1,357 |
| Forward Purchase Commitments | 3,644 | 795 | (1,124) | 795 |
| British Pound Futures | - | - | - | 64 |
| | <u>(21,741)</u> | <u>2,095</u> | <u>18,669</u> | <u>14,781</u> |
| <u>Included within Net realized gain/(loss)</u> | | | | |
| Interest Rate Swaps | 58,165 | 1,657 | 103,381 | 2,554 |
| Long TBAs | (3,154) | - | (10,789) | - |
| Short TBAs | - | (1,087) | 13,578 | (1,087) |
| Forward Purchase Commitments | (4,917) | - | (12,306) | - |
| British Pound Futures | - | - | - | (165) |
| | <u>50,094</u> | <u>570</u> | <u>93,864</u> | <u>1,302</u> |
| Total income/(loss) | \$ 28,353 | \$ 2,665 | \$ 112,533 | \$ 16,083 |

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TBAs

The following table presents information about the Company's TBAs for the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | | Three Months Ended | | | | | | |
|--------------------|------------|--|---------------------------|----------------------------|---------------------------------------|--|--|-----------------------------|
| | | Beginning Notional Amount | Buys or Covers | Sales or Shorts | Ending Notional Amount | Fair Value as of Period End | Receivable/(Payable) from/to Broker | Derivative Asset |
| September 30, 2022 | Long TBAs | \$ 400,000 | \$ - | \$ (400,000) | \$ - | \$ - | \$ - | \$ - |
| September 30, 2021 | Short TBAs | (130,000) | 338,000 | (515,500) | 307,500 | (316,937) | 318,295 | 1,358 |
| | | Nine Months Ended | | | | | | |
| | | Beginning Notional Amount | Buys or Covers | Sales or Shorts | Ending Notional Amount | Fair Value as of Period End | Receivable/(Payable) from/to Broker | Derivative Asset |
| September 30, 2022 | Long TBAs | \$ - | \$ 1,650,000 | \$ (1,650,000) | \$ - | \$ - | \$ - | \$ - |
| September 30, 2022 | Short TBAs | (385,963) | 1,320,852 | (934,889) | - | - | - | - |
| September 30, 2021 | Short TBAs | - | 338,000 | (645,500) | (307,500) | (316,937) | 318,295 | 1,358 |

**8.
Earnings per share**

Following the close of business on July 22, 2021, the Company effected a one-for-three reverse stock split of its outstanding shares of common stock. All per share amounts and common shares outstanding for all applicable periods presented in the unaudited consolidated financial statements have been adjusted on a retroactive basis to reflect the Company's one-for-three reverse stock split. Refer to Note 2 and Note 11 for additional information.

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021 (in thousands, except per share data).

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Numerator: | | | | |
| Net Income/(Loss) | \$ (2,869) | \$ 34,579 | \$ (64,794) | \$ 93,321 |
| Gain on Exchange Offers, net (Note 11) | - | - | - | 472 |
| Dividends on preferred stock | (4,586) | (4,586) | (13,758) | (14,199) |
| Net income/(loss) available to common stockholders | \$ (7,455) | \$ 29,993 | \$ (78,552) | \$ 79,594 |
| Denominator: | | | | |
| Basic weighted average common shares outstanding | 22,394 | 16,077 | 23,250 | 15,270 |
| Diluted weighted average common shares outstanding | 22,394 | 16,077 | 23,250 | 15,270 |
| Earnings/(Loss) Per Share of Common Stock | | | | |
| Basic | \$ (0.33) | \$ 1.87 | \$ (3.38) | \$ 5.21 |
| Diluted | \$ (0.33) | \$ 1.87 | \$ (3.38) | \$ 5.21 |

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Dividends

The following tables detail the Company's common stock dividends declared during the nine months ended September 30, 2022 and 2021.

2022

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share |
|------------------|-------------|--------------|-------------------------|
| 3/18/2022 | 3/31/2022 | 4/29/2022 | \$ 0.21 |
| 6/15/2022 | 6/30/2022 | 7/29/2022 | 0.21 |
| 9/15/2022 | 9/30/2022 | 10/31/2022 | 0.21 |
| Total | | | \$ 0.63 |

2021

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share |
|------------------|-------------|--------------|-------------------------|
| 3/22/2021 | 4/1/2021 | 4/30/2021 | \$ 0.18 |
| 6/15/2021 | 6/30/2021 | 7/30/2021 | 0.21 |
| 9/15/2021 | 9/30/2021 | 10/29/2021 | 0.21 |
| Total | | | \$ 0.60 |

The following tables detail the Company's preferred stock dividends declared and paid during the nine months ended September 30, 2022 and 2021.

2022

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share | | |
|------------------|-------------|--------------|-------------------------|----------------|-----------------|
| | | | 8.25% Series A | 8.00% Series B | 8.000% Series C |
| 2/18/2022 | 2/28/2022 | 3/17/2022 | \$ 0.51563 | \$ 0.50 | \$ 0.50 |
| 5/2/2022 | 5/31/2022 | 6/17/2022 | 0.51563 | 0.50 | 0.50 |
| 8/3/2022 | 8/31/2022 | 9/19/2022 | 0.51563 | 0.50 | 0.50 |
| Total | | | \$ 1.54689 | \$ 1.50 | \$ 1.50 |

2021

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share | | |
|------------------|-------------|--------------|-------------------------|----------------|-----------------|
| | | | 8.25% Series A | 8.00% Series B | 8.000% Series C |
| 2/16/2021 | 2/26/2021 | 3/17/2021 | \$ 0.51563 | \$ 0.50 | \$ 0.50 |
| 5/17/2021 | 5/28/2021 | 6/17/2021 | 0.51563 | 0.50 | 0.50 |
| 7/30/2021 | 8/31/2021 | 9/17/2021 | 0.51563 | 0.50 | 0.50 |
| Total | | | \$ 1.54689 | \$ 1.50 | \$ 1.50 |

9. Income taxes

As a REIT, the Company is not subject to federal income tax to the extent that it makes qualifying distributions to its stockholders, and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. Most states follow U.S. federal income tax treatment of REITs.

The Company elected to treat certain domestic subsidiaries as TRSs. The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. During the three and nine months ended September 30, 2022, the Company accrued income tax expense of \$ 0.2 million which is recorded in the "Other operating expenses" line item on the consolidated statement of operations. The Company did not record any income tax expense for the three and nine months ended September 30, 2021.

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Excise tax represents a four percent tax on the required amount of the Company's ordinary income and net capital gains not distributed during the year. The expense is calculated in accordance with applicable tax regulations. For the three and nine months ended September 30, 2022 and 2021, the Company did not record any excise tax expense.

The Company files tax returns in several U.S. jurisdictions. There are no ongoing U.S. federal, state or local tax examinations related to the Company.

Based on its analysis of any potential uncertain income tax positions, the Company concluded it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of September 30, 2022. The Company's federal income tax returns for the last three tax years are open to examination by the Internal Revenue Service. In the event that the Company incurs income tax related interest and penalties, its policy is to classify them as a component of provision for income taxes.

10.
Related party transactions

Manager

The Company has entered into a management agreement with the Manager, which provided for an initial term and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, which became effective July 6, 2011 (upon the consummation of the Company's initial public offering (the "IPO")), the Manager provides the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of Angelo Gordon. The Company does not have any employees. The Manager has delegated to Angelo Gordon the overall responsibility of its day-to-day duties and obligations arising under the Company's management agreement. Below is a description of the fees and reimbursements provided in the management agreement.

Management fee

The Manager is entitled to a management fee equal to 1.50% per annum, calculated and paid quarterly, of the Company's Stockholders' Equity. For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus the Company's retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that the Company pays for repurchases of its common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in the Company's financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements.

The below table details the management fees incurred during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Management fee to affiliate | \$ 2,064 | \$ 1,693 | \$ 5,984 | \$ 5,014 |

As of September 30, 2022 and December 31, 2021, the Company recorded management fees payable of \$2.1 million and \$1.8 million, respectively. The management fee payable is included within the "Due to affiliates" item within the "Other liabilities" line item on the consolidated balance sheets.

Incentive fee

In connection with the common stock offering in November 2021, including the Manager's purchase of 700,000 shares in the offering, on November 22, 2021, the Company and the Manager executed an amendment (the "Third Management Agreement Amendment") to the management agreement, pursuant to which the Company will pay the Manager an annual incentive fee in addition to the base management fee. Pursuant to the Third Amendment, the Manager waived the annual incentive fee with

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respect to the fiscal years ending December 31, 2021 and December 31, 2022, and the annual incentive fee will first be payable with respect to the fiscal year ending December 31, 2023.

The annual incentive fee with respect to each applicable fiscal year will be equal to 15% of the amount by which the Company's cumulative adjusted net income from the date of the Third Amendment exceeds the cumulative hurdle amount, which represents an 8% return (cumulative, but not compounding) on an equity hurdle base consisting of the sum of (i) the Company's adjusted book value (calculated in the manner described in the Company's public filings) as of October 31, 2021, (ii) \$80.0 million, and (iii) the gross proceeds of any subsequent public or private common stock offerings by the Company. The annual incentive fee will be payable in cash, or, at the option of the Company's Board of Directors, shares of common stock or a combination of cash and shares.

In addition, pursuant to the Third Amendment, the term of the management agreement was extended until June 30, 2023, unless earlier terminated in accordance with its terms. Thereafter, the management agreement will continue to renew automatically each year for an additional one-year period, unless the Company or the Manager exercise its respective termination rights. All other terms and conditions of the management agreement continued without change.

Termination fee

Upon the occurrence of (i) the Company's termination of the management agreement without cause or (ii) the Manager's termination of the management agreement upon a breach by the Company of any material term of the management agreement, the Manager will be entitled to a termination fee equal to three times the average annual management fee during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. As of September 30, 2022 and December 31, 2021, no event of termination of the management agreement had occurred.

Expense reimbursement

The Company is required to reimburse the Manager or its affiliates for operating expenses which are incurred by the Manager or its affiliates on behalf of the Company, including expenses relating to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the management agreement with oversight by the Company's Board of Directors.

The Company reimburses the Manager or its affiliates for the Company's allocable share of the compensation, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits paid to (i) the Company's chief financial officer based on the percentage of time spent on Company affairs, (ii) the Company's general counsel based on the percentage of time spent on the Company's affairs, and (iii) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment personnel of the Manager and its affiliates who spend all or a portion of their time managing the Company's affairs based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, they devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

The Company records its expenses reimbursed to the Manager or its affiliates within the "Other operating expenses" and "Transaction related expenses" line items on the consolidated statements of operations. The below table details the expense reimbursement incurred during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Operating expenses (1) | \$ 1,405 | \$ 1,125 | \$ 4,215 | \$ 3,375 |
| Deal related expenses (1) | 261 | 189 | 637 | 518 |
| Transaction related expenses (2) | 738 | 251 | 2,484 | 331 |
| Expense reimbursements to affiliates | \$ 2,404 | \$ 1,565 | \$ 7,336 | \$ 4,224 |

- (1) Included in the "Other operating expenses" line item on the consolidated statement of operations.
(2) Included in the "Transaction related expenses" line item on the consolidated statement of operations.

For the year ended December 31, 2021, the Manager agreed to waive its right to receive expense reimbursements of \$0.8 million. For the three and nine months ended September 30, 2021, the Company reduced its expense reimbursement

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amount by \$0.2 million and \$0.6 million, respectively. As of September 30, 2022 and December 31, 2021, the Company recorded a reimbursement payable to the Manager or its affiliates of \$2.5 million and \$2.1 million, respectively. The Reimbursement payable to the Manager or its affiliates is included within the "Due to affiliates" item within the "Other liabilities" line item on the consolidated balance sheets.

Restricted stock grants

Equity Incentive Plans

Effective on April 15, 2020 upon the approval of the Company's stockholders at its 2020 annual meeting of stockholders, the 2020 Equity Incentive Plan provides for a maximum of 666,666 shares of common stock to be issued. The maximum number of shares of common stock granted during a single fiscal year to any non-employee director, taken together with any cash fees paid to such non-employee director during any fiscal year, shall not exceed \$300,000 in total value (calculating the value of any such awards based on the grant date fair value). As of September 30, 2022, 570,901 shares of common stock were available to be awarded under the 2020 Equity Incentive Plan.

Since inception of the 2020 Equity Incentive Plan and through September 30, 2022, the Company has granted an aggregate of 95,765 shares of restricted common stock to its independent directors under its 2020 Equity Incentive Plan, all of which have vested.

Manager Equity Incentive Plans

Following approval of the Company's stockholders at its 2021 annual meeting of stockholders, the AG Mortgage Investment Trust, Inc. 2021 Manager Equity Incentive Plan (the "2021 Manager Plan") became effective on April 7, 2021 and provides for a maximum of 573,425 shares of common stock that may be subject to awards thereunder to the Manager. As of September 30, 2022, there were no shares or awards issued under the 2021 Manager Plan.

Director compensation

The annual base director's fee for each independent director is \$150,000, \$70,000 of which is payable on a quarterly basis in cash and \$80,000 of which is payable on a quarterly basis in shares of restricted common stock. The number of shares of restricted common stock to be issued each quarter to each independent director is determined based on the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the last trading day of each fiscal quarter. To the extent that any fractional shares would otherwise be issuable and payable to each independent director, a cash payment is made to each independent director in lieu of any fractional shares. All directors' fees are paid pro rata (and restricted stock grants determined) on a quarterly basis in arrears, and shares issued are fully vested and non-forfeitable. These shares may not be sold or transferred by such director during the time of their service as an independent member of the Company's board. As of September 30, 2022, the Company's Board of Directors consisted of four independent directors.

Investments in debt and equity of affiliates

The Company invests in credit sensitive residential assets through affiliated entities which hold an ownership interest in the assets. The Company is one investor, amongst other investors managed by affiliates of Angelo Gordon, in such entities and has applied the equity method of accounting for such investments.

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The below table reconciles the fair value of investments to the "Investments in debt and equity of affiliates" line item on the Company's consolidated balance sheets as of September 30, 2022 and December 31, 2021 (in thousands).

| | September 30, 2022 | | | December 31, 2021 | | |
|--|--------------------|-------------|-----------|-------------------|-------------|-----------|
| | Assets | Liabilities | Equity | Assets | Liabilities | Equity |
| MATT Non-QM Loans (1) | \$ 38,824 | \$ (24,406) | \$ 14,418 | \$ 45,837 | \$ (30,471) | \$ 15,366 |
| Land Related Financing (2) | 10,946 | - | 10,946 | 16,891 | - | 16,891 |
| Re/Non-Performing Loans | 8,212 | (4,820) | 3,392 | 9,298 | (5,538) | 3,760 |
| Total Residential Investments | 57,982 | (29,226) | 28,756 | 72,026 | (36,009) | 36,017 |
| AG Arc, at fair value | 46,588 | - | 46,588 | 53,435 | - | 53,435 |
| Cash and Other assets/(liabilities) | 4,394 | (708) | 3,686 | 3,698 | (1,127) | 2,571 |
| Investments in debt and equity of affiliates | \$ 108,964 | \$ (29,934) | \$ 79,030 | \$ 129,159 | \$ (37,136) | \$ 92,023 |

- (1) As of September 30, 2022 and December 31, 2021, MATT primarily holds retained tranches from past securitizations which continue to pay down and the Company does not expect to acquire additional investments within this equity method investment.
- (2) Land Related Financing continues to pay down and the Company does not expect to originate new loans within this equity method investment.

The below table reconciles the net income/(loss) to the "Equity in earnings/(loss) from affiliates" line item on the Company's consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| MATT Non-QM Loans | \$ 1,413 | \$ (644) | \$ 154 | \$ 15,277 |
| Land Related Financing | 300 | 598 | 1,248 | 1,848 |
| Re/Non-Performing Loans | 927 | 6,553 | 758 | 13,370 |
| AG Arc (1) | (4,266) | 399 | (11,646) | 4,033 |
| Other | - | (24) | - | (32) |
| Equity in earnings/(loss) from affiliates | \$ (1,626) | \$ 6,882 | \$ (9,486) | \$ 34,496 |

- (1) Earnings/(loss) recognized by AG Arc do not include the Company's portion of gains recorded by Arc Home in connection with the sale of residential mortgage loans to the Company. Refer to Note 2 for more information on this accounting policy.

Transactions with affiliates

Transactions with Red Creek Asset Management LLC

In connection with the Company's investments in residential mortgage loans, the Company engages asset managers to provide advisory, consultation, asset management and other services. The Company engaged Red Creek Asset Management LLC ("Asset Manager"), a related party of the Manager and direct subsidiary of Angelo Gordon, as the asset manager for certain of its residential mortgage loans. The Company pays the Asset Manager separate arm's-length asset management fees as assessed periodically by a third-party valuation firm. The below table details the fees paid by the Company to the Asset Manager during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Fees paid to Asset Manager | \$ 825 | \$ 531 | \$ 2,007 | \$ 1,651 |

As of September 30, 2022 and December 31, 2021, the Company recorded asset management fees payable of \$0.2 million and \$0.2 million, respectively. Asset management fees payable are included within the "Due to affiliates" item within the "Other liabilities" line item on the consolidated balance sheets.

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Transactions with Arc Home

Arc Home may sell loans to the Company, third-parties, or affiliates of the Manager. The below table details the unpaid principal balance of Non-Agency Loans and Agency-Eligible Loans sold to the Company and private funds under the management of Angelo Gordon during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Residential mortgage loans sold by Arc Home to the Company | \$ 350,257 | \$ 236,627 | \$ 1,028,339 | \$ 487,062 |
| Residential mortgage loans sold by Arc Home to private funds under the management of Angelo Gordon | 38,792 | 172,027 | 170,583 | 440,595 |

Arc Home may also enter into agreements with third-parties or affiliates of the Manager to sell rights to receive the excess servicing spread related to MSR's that it either purchases from third-parties or originates. The Company, directly or through its subsidiaries, previously entered into agreements with Arc Home to purchase rights to receive the excess servicing spread related to certain of Arc Home's MSR's, all of which were sold during 2021 as detailed below.

In July 2021, the Company, alongside private funds under the management of Angelo Gordon, sold its remaining Agency Excess MSR's to Arc Home for total proceeds of \$9.9 million. The portfolio had a total unpaid principal balance of \$2.0 billion. The Company's share of the total proceeds was \$2.7 million, representing its approximate 45% ownership interest. Arc Home subsequently sold its MSR portfolio to a third party.

The Company enters into forward purchase commitments with Arc Home whereby the Company commits to purchase residential mortgage loans from Arc Home at a particular price on a best-efforts basis. Actual loan purchases are contingent upon successful loan closings. These commitments to purchase mortgage loans are classified as derivatives. See Note 7 and Note 12 for more detail.

Securitization Transactions

In May 2021, the Company, alongside private funds under the management of Angelo Gordon, participated through its unconsolidated ownership interest in MATT in a rated Non-QM Loan securitization, in which Non-QM Loans with a fair value of \$171.4 million were securitized. Certain senior tranches in the securitization were sold to third parties with the Company and private funds under the management of Angelo Gordon retaining the subordinate tranches, which had a fair value of \$25.7 million as of June 30, 2021.

In November 2021, the Company, alongside a private fund under the management of Angelo Gordon, participated in a rated Non-QM Loan securitization, in which Non-QM Loans with a fair value of \$225.9 million were securitized. Upon evaluating its investment in the VIE, the Company determined it was not the primary beneficiary and, as a result, did not consolidate the securitization trust. In addition, the Company determined the sale of the residential mortgage loans into the securitization qualified for sale accounting and derecognized the loans from its consolidated balance sheets. Certain senior tranches in the securitization were sold to third-parties with the Company and the private fund under the management of Angelo Gordon retaining the subordinate tranches, which had a fair value of \$44.0 million as of December 31, 2021. The Company has a 40.9% interest in the retained subordinate tranches which represents its continuing involvement in the securitization trust. These retained subordinate tranches are included within the "Real estate securities, at fair value" line item on its consolidated balance sheets.

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Transactions under the Company's Affiliated Transaction Policy

The below table details transactions where the Company purchased or sold assets from or to an affiliate of the Manager (\$ in millions). The transactions were executed in accordance with the Company's Affiliated Transaction Policy. Refer to the "Transactions with Arc Home" section above for additional information related to transactions with Arc Home, which are excluded from the table below.

| Date | Transaction | Fair value (1) | Pricing methodology |
|---------------|--|-----------------------|---------------------------------|
| March 2021 | Sale of real estate securities | \$ 6.9 | Competitive bidding process (2) |
| April 2021 | Sale of real estate securities | 16.8 | Third party pricing vendors (3) |
| July 2021 | Sale of real estate securities | 17.6 | Competitive bidding process (2) |
| October 2021 | Purchase of real estate securities (4) | 3.5 | Third party pricing vendors (3) |
| November 2021 | Purchase of residential mortgage loans (5) | 181.8 | Third party pricing vendors (3) |

- (1) As of the transaction date.
- (2) The affiliate submitted an offer to purchase the securities from the Company in a competitive bidding process, which allowed the Company to confirm third-party market pricing and best execution.
- (3) Pricing was based on valuations prepared by third-party pricing vendors in accordance with the Company's policy.
- (4) The Company purchased the real estate securities through one of its unconsolidated affiliated entities.
- (5) MATT exercised its call rights on two securitization trusts in which it held interests in the subordinate tranches. Upon exercising its call rights and acquiring the remaining residential mortgage loans within the trusts, MATT sold the loans to the Company and a private fund under the management of Angelo Gordon in accordance with the Company's Affiliated Transactions Policy. As of the date of the transaction, the residential mortgage loans sold to the private fund had a total fair value of \$183.6 million.

11.
Equity

Reverse stock split

On July 12, 2021, the Company announced that its Board of Directors approved a one-for-three reverse stock split of its outstanding shares of common stock. The reverse stock split was effected following the close of business on July 22, 2021. At the Effective Time, every three issued and outstanding shares of the Company's common stock were converted into one share of the Company's common stock. No fractional shares were issued in connection with the reverse stock split. Instead, each stockholder holding fractional shares was entitled to receive, in lieu of such fractional shares, cash in an amount determined based on the closing price of the Company's common stock on the date of the Effective Time. As a result, the number of common shares outstanding was reduced from 48,510,978 immediately prior to the Effective Time to 16,170,312. The reverse stock split applied to all of the Company's outstanding shares of common stock and did not affect any stockholder's ownership percentage of shares of the Company's common stock, except for immaterial changes resulting from the payment of cash for fractional shares. All per share amounts and common shares outstanding for all applicable periods presented in the unaudited consolidated financial statements have been adjusted on a retroactive basis to reflect the Company's one-for-three reverse stock split.

Stock repurchase programs

During the nine months ended September 30, 2022, the Company repurchased 1.4 million shares for \$11.0 million under the common stock repurchase program authorized by the Company's Board of Directors on November 3, 2015 (the "2015 Repurchase Program"). During the three and nine months ended September 30, 2021, the Company repurchased 0.3 million shares for \$2.8 million under the 2015 Repurchase Program. As of June 30, 2022, the \$25.0 million maximum repurchase amount authorized under the 2015 Repurchase Program was fully utilized.

On August 3, 2022, the Company's Board of Directors authorized a stock repurchase program (the "2022 Repurchase Program") to repurchase up to \$15.0 million of the Company's outstanding common stock on substantially the same terms as the 2015 Repurchase Program. The 2022 Repurchase Program does not have an expiration date and permits the Company to repurchase its shares through various methods, including open market repurchases, privately negotiated block transactions and Rule 10b5-1 plans. The Company may repurchase shares of its common stock from time to time in compliance with SEC regulations and other legal requirements. The extent to which the Company repurchases its shares, and the timing, manner, price, and amount of any such repurchases, will depend upon a variety of factors including market conditions and other corporate considerations as determined by the Company's management, as well as the limits of the 2022 Repurchase Program

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and the Company's liquidity and business strategy. The 2022 Repurchase Program does not obligate the Company to acquire any particular amount of shares and may be modified or discontinued at any time. During the three and nine months ended September 30, 2022, the Company repurchased 0.4 million shares for \$2.3 million under the 2022 Repurchase Program. As of September 30, 2022, approximately \$12.7 million of common stock remained authorized for future share repurchases under the 2022 Repurchase Program.

On February 22, 2021, the Company's Board of Directors authorized a stock repurchase program (the "Preferred Repurchase Program") pursuant to which the Company's Board of Directors granted a repurchase authorization to acquire shares of its Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock having an aggregate value of up to \$20.0 million. No share repurchases under the Preferred Repurchase Program have been made since its authorization.

Shares of stock repurchased by the Company under any repurchase program, if any, will be cancelled and, until reissued by the Company, will be deemed to be authorized but unissued shares of its stock as required by Maryland law. The cost of the acquisition by the Company of shares of its own stock in excess of the aggregate par value of the shares first reduces additional paid-in capital, to the extent available, with any residual cost applied against retained earnings.

Equity distribution agreements

On May 5, 2017, the Company entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the "Sales Agents"), which the Company refers to as the "Equity Distribution Agreements," pursuant to which the Company may sell up to \$100.0 million aggregate offering price of shares of its common stock from time to time through the Sales Agents under the Securities Act of 1933. For the three and nine months ended September 30, 2022, the Company did not issue any shares of common stock under the Equity Distribution Agreements. For the three months ended September 30, 2021, the Company did not issue any shares under the Equity Distribution Agreements. For the nine months ended September 30, 2021, the Company issued 1.0 million shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$13.1 million. Since inception of the program, the Company has issued approximately 2.2 million shares of common stock under the Equity Distribution Agreements for gross proceeds of \$48.3 million.

Shelf registration statement

On May 7, 2021, the Company filed a new shelf registration statement, registering up to \$1.0 billion of its securities, including capital stock (the "2021 Registration Statement"). The 2021 Registration Statement became effective on May 26, 2021 and will expire on May 28, 2024. Upon effectiveness of the 2021 Registration Statement, the Company's previous registration statement filed in 2018 was terminated.

Common stock offering

On November 22, 2021, the Company completed a public offering of 7.0 million shares of its common stock and subsequently issued an additional 1.1 million shares pursuant to the underwriters' exercise of their over-allotment option at a price of \$9.98 per share. Net proceeds to the Company from the offering were approximately \$80.0 million, after deducting offering expenses.

Preferred stock

The Company is authorized to designate and issue up to 50.0 million shares of preferred stock, par value \$0.01 per share, in one or more classes or series. As of September 30, 2022 and December 31, 2021, there were 1.7 million, 3.7 million, and 3.7 million of Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock, respectively, issued and outstanding.

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The following table includes a summary of preferred stock issued and outstanding as of September 30, 2022 (\$ and shares in thousands).

| Preferred Stock Series | Issuance Date | Shares Outstanding | Carrying Value | Aggregate Liquidation Preference (1) | Optional Redemption Date (2) | Rate (3)(4) |
|--------------------------|--------------------|--------------------|----------------|--------------------------------------|------------------------------|-------------|
| Series A Preferred Stock | August 3, 2012 | 1,663 | \$ 40,110 | \$ 41,580 | August 3, 2017 | 8.25 % |
| Series B Preferred Stock | September 27, 2012 | 3,728 | 90,187 | 93,191 | September 17, 2017 | 8.00 % |
| Series C Preferred Stock | September 17, 2019 | 3,729 | 90,175 | 93,220 | September 17, 2024 | 8.000 % |
| Total | | 9,120 | \$ 220,472 | \$ 227,991 | | |

- (1) The Company's Preferred Stock has a liquidation preference of \$25.00 per share.
- (2) Shares have no stated maturity and are not subject to any sinking fund or mandatory redemption. Shares of the Company's Preferred Stock are redeemable at \$25.00 per share plus accumulated and unpaid dividends (whether or not declared) exclusively at the Company's option. Shares of the Company's Series C Preferred Stock may be redeemable earlier than the optional redemption date under certain circumstances intended to preserve its qualification as a REIT for Federal income tax purposes.
- (3) The initial dividend rate for the Series C Preferred Stock, from and including the date of original issue to, but not including, September 17, 2024, is 8.000% per annum of the \$25.00 per share liquidation preference. On and after September 17, 2024, dividends on the Series C Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the then three-month LIBOR (or as replaced by the existing LIBOR cessation fallback language) plus a spread of 6.476% per annum.
- (4) Dividends are payable quarterly in arrears on the 17th day of each March, June, September and December and holders are entitled to receive cumulative cash dividends at the respective stated rate per annum before holders of common stock are entitled to receive any cash dividends.

The Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock generally do not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, holders of the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock voting together as a single class with the holders of all other classes or series of its preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of any series of the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of the series of the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock whose terms are being changed.

Exchange offers

The below details privately negotiated exchange agreements with existing holders of the Company's preferred shares exchanged for common shares during 2021. The Company did not complete any exchange offers during the nine months ended September 30, 2022. Subsequent to each transaction, the Preferred Stock exchanged pursuant to the exchange agreement was reclassified as authorized but unissued shares of preferred stock without designation as to class or series (\$ in thousands).

| Date | Preferred Shares Exchanged | | | Total Preferred Stock Par Value | Common Shares Exchanged |
|----------------|------------------------------------|------------------------------------|------------------------------------|---------------------------------|-------------------------|
| | Shares of Series A Preferred Stock | Shares of Series B Preferred Stock | Shares of Series C Preferred Stock | | |
| March 17, 2021 | 153,325 | 350,609 | - | \$ 12,598 | 937,462 |
| June 14, 2021 | - | 86,478 | 154,383 | 6,022 | 429,802 |

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12.
Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2022, the Company was not involved in any material legal proceedings.

The below table details the Company's outstanding commitments as of September 30, 2022 (in thousands).

| Commitment type | Date of Commitment | Total Commitment | Funded Commitment | Remaining Commitment |
|--|-------------------------------|-------------------------|--------------------------|---------------------------------|
| Non-Agency and Agency-Eligible Loans (1) | Various | \$ 121,009 | \$ - | \$ 121,009 |
| Land Related Financing (2) | Various | 14,290 | 10,946 | 3,344 |
| MATT Non-QM Loans (2) | January 28, 2022 | 15,607 | - | 15,607 |
| Total | | \$ 150,906 | \$ 10,946 | \$ 139,960 |

- (1) The Company entered into forward purchase commitments to acquire certain Non-Agency and Agency-Eligible Loans from Arc Home which have not yet settled as of September 30, 2022. Refer to Note 10 "Transactions with affiliates" for more information.
(2) Refer to Note 2 and Note 10 "Investments in debt and equity of affiliates" for more information regarding LOTS and MATH.

13.
Subsequent Events

The Company announced that on November 3, 2022 its Board of Directors declared fourth quarter 2022 preferred stock dividends on its Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock in the amount of \$0.51563, \$0.50, and \$0.50 per share, respectively. The dividends will be paid on December 19, 2022 to holders of record on November 30, 2022.

The Company executed a rated Non-Agency securitization, in which loans with a total unpaid principal balance of \$457.4 million were securitized. The securitization converted financing from recourse financing with mark-to-market margin calls to non-recourse financing without mark-to-market margin calls.

The Company repurchased 0.1 million shares of common stock for \$0.3 million under the 2022 Repurchase Program.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this quarterly report on Form 10-Q, or this "report," we refer to AG Mortgage Investment Trust, Inc. as "we," "us," the "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, AG REIT Management, LLC, as our "Manager," and we refer to the direct parent company of our Manager, Angelo, Gordon & Co., L.P., as "Angelo Gordon."

The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements, which are included in Item 1 of this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2021, and any subsequent filings.

Forward-Looking Statements

We make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in this report that are subject to substantial known and unknown risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, returns, results of operations, plans, yields, objectives, the composition of our portfolio, actions by governmental entities, including the Federal Reserve, and the potential effects of actual and proposed legislation on us, and our views on certain macroeconomic trends, and the impact of the novel coronavirus ("COVID-19"). When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements.

These forward-looking statements are based upon information presently available to our management and are inherently subjective, uncertain and subject to change. There can be no assurance that actual results will not differ materially from our expectations. Some, but not all, of the factors that might cause such a difference include, without limitation:

- the uncertainty and economic impact of the COVID-19 pandemic (including the impact of any significant variants) and of responsive measures implemented by various governmental authorities, businesses and other third parties, and the potential impact of COVID-19 on our personnel;
- the persistence of labor shortages, supply chain imbalances, Russia's invasion of Ukraine, inflation, and the potential for an economic recession;
- changes in our business and investment strategy;
- our ability to predict and control costs;
- changes in interest rates and the fair value of our assets, including negative changes resulting in margin calls relating to the financing of our assets;
- changes in the yield curve;
- changes in prepayment rates on the loans we own or that underlie our investment securities;
- regulatory and structural changes in the residential loan market and its impact on non-agency mortgage markets;
- increased rates of default or delinquencies and/or decreased recovery rates on our assets;
- our ability to obtain and maintain financing arrangements on terms favorable to us or at all;
- our ability to enter into, or refinance, securitization transactions on the terms and pace anticipated or at all;
- the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- changes in general economic conditions, in our industry and in the finance and real estate markets, including the impact on the value of our assets;
- conditions in the market for Residential Investments and Agency RMBS;
- legislative and regulatory actions by the U.S. Congress, U.S. Department of the Treasury, the Federal Reserve and other agencies and instrumentalities;
- the forbearance program included in the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act");
- our ability to make distributions to our stockholders in the future;
- our ability to maintain our qualification as a REIT for federal tax purposes; and
- our ability to qualify for an exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act").

We caution investors not to rely unduly on any forward-looking statements, which speak only as of the date made, and urge you to carefully consider the risks noted above and identified under the captions "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021 and any subsequent filings. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice.

Executive Summary

During the third quarter of 2022, we continued to grow our portfolio of newly-originated residential mortgage loans and completed two securitizations in order to obtain long-term, non-recourse financing without mark-to-market margin calls. We also repurchased shares of our common stock under our repurchase program authorized in 2022 (the "2022 Repurchase Program"). See below for detail on these activities during the third quarter 2022.

Investment Activity

- Purchased Non-Agency Loans with a fair value of \$510.3 million, \$288.8 million of which were purchased from Arc Home, our residential mortgage loan originator in which we own an approximate 44.6% interest; and
- Purchased Agency-Eligible Loans with a fair value of \$381.3 million, \$67.2 million of which were purchased from Arc Home.

Financing Activity

- Executed two rated securitizations converting financing from recourse financing with mark-to-market margin calls to non-recourse financing without mark-to-market margin calls;
 - Securitized Non-Agency Loans with a total unpaid principal balance of \$415.9 million; and
 - Securitized Agency-Eligible Loans with a total unpaid principal balance of \$422.7 million.
- Subsequent to quarter end, executed a rated securitization of Non-Agency Loans with \$457.4 million of unpaid principal balance, converting financing from recourse financing with mark-to-market margin calls to non-recourse financing without mark-to-market margin calls.

Capital Activity

- Repurchased 0.4 million shares of common stock for \$2.3 million, representing a weighted average cost of \$6.08 per share.
- Subsequent to quarter end, repurchased 0.1 million shares of common stock for \$0.3 million, representing a weighted average cost of \$4.32 per share.

Our company

We are a residential mortgage REIT with a focus on investing in a diversified risk-adjusted portfolio of residential mortgage-related assets in the U.S. mortgage market. Our objective is to provide attractive risk-adjusted returns to our stockholders over the long-term, primarily through dividends and capital appreciation.

We focus our investment activities primarily on acquiring and securitizing newly-originated residential mortgage loans within the non-agency segment of the housing market. We obtain our assets through Arc Home, LLC ("Arc Home"), our residential mortgage loan originator in which we own an approximate 44.6% interest, and through other third-party origination partners. We finance our acquired loans through various financing lines on a short-term basis and utilize Angelo, Gordon & Co., L.P.'s ("Angelo Gordon") proprietary securitization platform to secure long-term, non-recourse, non-mark-to-market financing as market conditions permit. Through our ownership in Arc Home, we also have exposure to mortgage banking activities. Arc Home is a multi-channel licensed mortgage originator and servicer primarily engaged in the business of originating and selling residential mortgage loans while retaining the mortgage servicing rights associated with certain loans that it originates.

Our investment portfolio (which excludes our ownership in Arc Home) includes Residential Investments and Agency RMBS. Currently, our Residential Investments primarily consist of newly originated Non-Agency Loans and Agency-Eligible Loans, which we refer to as our target assets. In addition, we may also invest in other types of residential mortgage loans and other mortgage related assets. As of September 30, 2022, the Company's investment portfolio consisted of the following:

| Asset Class | Description |
|--|---|
| Target Assets | |
| Non-Agency Loans ⁽¹⁾⁽²⁾⁽³⁾ | • Non-Agency Loans are loans that do not conform to the underwriting guidelines of a government-sponsored enterprise ("GSE"). Non-Agency Loans consist of Qualified mortgage loans ("QM Loans") and Non-Qualified mortgage loans ("Non-QM Loans"). QM Loans are residential mortgage loans that comply with the Ability-To-Repay rules and related guidelines of the Consumer Finance Protection Bureau ("CFPB"). |
| Agency-Eligible Loans ⁽¹⁾ | • Agency-Eligible Loans are loans that are underwritten in accordance with GSE guidelines and are primarily secured by investment properties. |
| Other Residential Mortgage Related Assets | |
| Re/Non-Performing Loans ⁽¹⁾⁽³⁾ | • Performing, re-performing, and non-performing loans are residential mortgage loans collateralized by a first lien mortgaged property. |
| Land Related Financing ⁽³⁾ | • First mortgage loans originated to third-party land developers and home builders for purposes of the acquisition and horizontal development of land. |
| Agency RMBS ⁽²⁾ | • Agency RMBS represent interests in pools of residential mortgage loans guaranteed by a GSE such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government such as Ginnie Mae. |

- (1) Loans held directly are included in the "Securitized residential mortgage loans, at fair value" or the "Residential mortgage loans, at fair value" line items on our consolidated balance sheets.
- (2) Non-Agency Loans and Agency-Eligible Loans held in securitized form, as well as Agency RMBS, are included in the "Real estate securities, at fair value" line item on our consolidated balance sheets.
- (3) Investments held through our unconsolidated affiliates are included in the "Investments in debt and equity of affiliates" line item on our consolidated balance sheets. This includes Non-Agency Loans held indirectly through our investment in Mortgage Acquisition Trust I LLC ("MATI"), certain retained tranches from unconsolidated Re/Non-Performing Loan securitizations which we hold alongside other private funds under the management of Angelo Gordon, and Land Related Financing.

Our primary sources of income are net interest income from our investment portfolio, changes in the fair value of our investments, and income from our investment in Arc Home. Net interest income consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and any costs related to hedging. Income from our investment in Arc Home is generated through its mortgage banking activities which represents the origination and subsequent sale of residential mortgage loans and servicing income sourced from its portfolio of mortgage servicing rights.

We were incorporated in Maryland on March 1, 2011 and commenced operations in July 2011. We conduct our operations to qualify and be taxed as a REIT for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT, with the exception of business conducted in our domestic taxable REIT subsidiaries ("TRS") which are subject to corporate income tax. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act.

Our Manager and Angelo Gordon

We are externally managed by AG REIT Management, LLC (our "Manager"), a subsidiary of Angelo, Gordon & Co., L.P. ("Angelo Gordon"). Pursuant to the terms of our management agreement, our Manager provides us with our management team, including our officers, along with appropriate support personnel. All of our officers are employees of Angelo Gordon or its affiliates. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our Board of Directors and has only such functions and authority as our Board of Directors delegates to it. Our Manager has delegated to Angelo Gordon the overall responsibility with respect to our Manager's day-to-day duties and obligations arising under our management agreement.

Through our relationship with our Manager, we benefit from the expertise and relationships that Angelo Gordon has established which provides us with resources to generate attractive risk-adjusted returns for our stockholders. Our management has significant experience in the mortgage industry and expertise in structured credit investments. We are able to leverage our

Manager, along with our ownership interest in Arc Home, a vertically integrated origination platform, to access investment opportunities in the non-agency residential mortgage loan market. This strategic advantage has enabled us to grow our investment portfolio and remain active in the securitization markets, utilizing Angelo Gordon's proprietary securitization platform to deliver non-agency investments to a diverse mix of investors.

Market Conditions

During the third quarter 2022, the financial markets continued to be volatile due to the impact of sustained inflation, higher benchmark rates and elevated interest rate volatility. Credit spreads tightened at the start of the third quarter before reversing to end unchanged compared to the previous quarter. The 30-year fixed-rate mortgage according to Freddie Mac's Primary Mortgage Market Survey ended the third quarter at 6.70% reaching multi-decade highs. As we continue to see an unprecedented sharp rise in mortgage rates, mortgage prepayments are nearing a plateau as the pipeline of refinance candidates has significantly declined. Mortgage underwriting remains very tight, similar to 2013 levels according to the Mortgage Bankers Association and is particularly tight for conforming balance agency mortgages which are a primary benchmark in underwriting new mortgages across other product sets. Home ownership affordability is historically low and in line with 1986 and 2006 readings, according to the National Association of Realtors. Year-to-date home price appreciation was 10.8% as of July 2022, according to the latest data from Case-Shiller; however, month over month home price readings have turned negative in the most recent data. Home prices in July fell -0.33%, or close to -4% when annualized, according to Case-Shiller data, while the CoreLogic index reported a -0.7% monthly decline a month later in August, more than -8% annualized.

Non-Agency Loans and Securitizations: Market conditions continued to weaken in the third quarter with Non-QM AAA credit spreads widening from around low to mid 200 basis points over comparable maturity benchmark rates at the end of June 2022 to mid to high 200 basis points at the end of the third quarter. There was a brief recovery in spreads in the month of August, with deals pricing in the mid 100 basis point area, but that trend quickly reversed as markets reacted negatively to Federal Reserve Chairman Jerome Powell's speech at the Jackson Hole Economic Policy Symposium which took place in the end of August. The 30-year fixed-rate mortgage ended the third quarter at 6.70% compared with 5.70% at the end of the second quarter, indicative of how quickly rates have risen as the Federal Reserve continues with its policy of monetary tightening in an effort to slow inflation. Originators faced considerable margin pressure with the significant reduction in non-cash out refinance activity, resulting in right-sizing across the industry. Conversely, the increase in mortgage rates on new production should provide for attractive reinvestment opportunities into higher yielding assets for market participants with capital available to deploy.

Agency RMBS: Nominal spreads on Agency mortgage-backed securities continued to widen in the third quarter alongside the Federal Reserve's continued aggressive policy actions to bring down inflation. Mortgage loan supply continues to slow in response to the sharp rise in borrowing rates, but elevated interest rate volatility, low levels of macroeconomic conviction, and fixed income mutual fund outflows all continue to keep buyers sidelined. The spread between current coupon and a blend of 5-year and 10-year U.S. Treasury yields widened by an additional 36 basis points during the quarter, rivaling spreads experienced during March 2020. Despite attractive asset valuations, uncertainty in the macroeconomic landscape and interest rate volatility continue to pose headwinds to a recovery near-term.

Non-Agency RMBS: Spreads for securitized residential debt sectors were volatile during the third quarter but ultimately saw little quarter-over-quarter change. While that held for credit risk transfer spreads, specific pockets of risk were changed by 30-40 basis points in both directions. Spreads for senior Non-QM tranches rallied from around 250 basis points at the end of the second quarter to as tight as around 175 basis points before reversing back to 250 basis points by quarter-end. Quarterly new issuance of RMBS fell to \$20 billion, down about 47% from the second quarter and 62% from year-ago levels, bringing year-to-date volume to \$109 billion. The sharpest declines came from prime jumbo and agency-eligible investor loans, which were lower by 80-90% quarter-over-quarter as deal sponsors were reluctant to issue amid sharply higher all-in costs from rising benchmark yields and wider spreads. Primary issuance of Non-QM fell 27% to \$7.8 billion, and credit risk transfer activity halved to around \$4 billion. Primary RMBS volume is unlikely to reach levels achieved in 2021 when over \$210 billion of activity was recorded, a post Great Financial Crisis peak. However, this year's issuance has matched 2020 volume of \$110 billion and may eclipse 2019 volume of \$137 billion.

In light of various market uncertainties for the U.S. and global economy, geopolitical risks, and interest rate volatility, there can be no assurance that the trends and conditions described above will not change in a manner materially adverse to the mortgage REIT industry and/or our Company.

Presentation of investment, financing and hedging activities

In the "Investment activities," "Financing activities," "Hedging activities," and "Liquidity and capital resources" sections of this

Item 2, we present information on our investment portfolio and the related financing arrangements inclusive of unconsolidated ownership interests in affiliates that are accounted for under GAAP using the equity method. Our investment portfolio excludes our investment in Arc Home.

Our investment portfolio and the related financing arrangements are presented along with a reconciliation to GAAP. This presentation of our investment portfolio is consistent with how our management team evaluates the business, and we believe this presentation, when considered with the GAAP presentation, provides supplemental information useful for investors in evaluating our investment portfolio and financial condition. See Notes 2 and 10 to the "Notes to Consolidated Financial Statements (unaudited)" for a discussion of investments in debt and equity of affiliates. See below for further terms used when describing our investment portfolio.

- Our "*Investment portfolio*" includes our Residential Investments and Agency RMBS, inclusive of TBAs.
- Our "*Residential Investments*" refer to our residential mortgage loans and Non-Agency RMBS.
 - "*Residential mortgage loans*" or "*Loans*" refer to our Non-Agency Loans, Agency-Eligible Loans, and Re/Non-Performing Loans (exclusive of retained tranches from unconsolidated securitizations) and Land Related Financing.
 - "*Non-Agency RMBS*" refer to the retained tranches from unconsolidated securitizations of Non-Agency Loans and Re/Non-Performing Loans, as well as Agency-Eligible Loans held in securitized form.
- "*Real estate securities*" refers to our Non-Agency RMBS and Agency RMBS, inclusive of TBAs.
- Our "*GAAP Investment portfolio*" includes our GAAP Residential Investments and Agency RMBS.
- Our "*GAAP Residential Investments*" refer to our Residential Investments excluding investments held within affiliated entities.

For a reconciliation of our Investment portfolio to our GAAP Investment portfolio, see the GAAP Investment Portfolio Reconciliation Table below.

Special Note Regarding COVID-19 Pandemic

In March 2020, the global pandemic associated with COVID-19 and the related economic conditions caused financial and mortgage-related asset markets to come under extreme duress, resulting in credit spread widening, a sharp decrease in interest rates and unprecedented illiquidity in repurchase agreement financing and MBS markets. The illiquidity was exacerbated by inadequate demand for MBS among primary dealers due to balance sheet constraints.

Although market conditions have improved, the COVID-19 pandemic is ongoing with new variants emerging despite growing vaccination rates. As a result, the full impact of COVID-19 (including the impact of any significant variants) on the mortgage REIT industry, credit markets, and, consequently, on our financial condition and results of operations for future periods remains uncertain. Future developments with respect to the COVID-19 pandemic, including among others, the emergence of new variants, the effectiveness and durability of current vaccines and government stimulus measures, could materially and adversely affect our business, operations, operating results, financial condition, liquidity, or capital levels.

Results of Operations

Our operating results can be affected by a number of factors and primarily depend on the size and composition of our investment portfolio, the level of our net interest income, the fair value of our assets and the supply of, and demand for, our investments in residential mortgage loans in the marketplace, among other things, which can be impacted by unanticipated credit events, such as defaults, liquidations or delinquencies, experienced by borrowers whose residential mortgage loans are included in our investment portfolio and other unanticipated events in our markets. Our primary source of net income or loss available to common stockholders is our net interest income, less our cost of hedging, which represents the difference between the interest earned on our investment portfolio and the costs of financing and economic hedges in place on our investment portfolio, as well as any income or losses from our equity investments in affiliates.

Three Months Ended September 30, 2022 compared to the Three Months Ended September 30, 2021

The table below presents certain information from our consolidated statements of operations for the three months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Increase/(Decrease) |
|--|--------------------|--------------------|---------------------|
| | September 30, 2022 | September 30, 2021 | |
| Statement of Operations Data: | | | |
| Net Interest Income | | | |
| Interest income | \$ 50,190 | \$ 19,629 | \$ 30,561 |
| Interest expense | 34,699 | 7,197 | 27,502 |
| Total Net Interest Income | 15,491 | 12,432 | 3,059 |
| Other Income/(Loss) | | | |
| Net interest component of interest rate swaps | (996) | (1,184) | 188 |
| Net realized gain/(loss) | 50,981 | (5,460) | 56,441 |
| Net unrealized gain/(loss) | (54,261) | 29,461 | (83,722) |
| Total Other Income/(Loss) | (4,276) | 22,817 | (27,093) |
| Expenses | | | |
| Management fee to affiliate | 2,064 | 1,693 | 371 |
| Other operating expenses | 4,083 | 2,997 | 1,086 |
| Transaction related expenses | 5,325 | 2,013 | 3,312 |
| Servicing fees | 986 | 849 | 137 |
| Total Expenses | 12,458 | 7,552 | 4,906 |
| Income/(loss) before equity in earnings/(loss) from affiliates | (1,243) | 27,697 | (28,940) |
| Equity in earnings/(loss) from affiliates | (1,626) | 6,882 | (8,508) |
| Net Income/(Loss) | (2,869) | 34,579 | (37,448) |
| Dividends on preferred stock | (4,586) | (4,586) | - |
| Net Income/(Loss) Available to Common Stockholders | \$ (7,455) | \$ 29,993 | \$ (37,448) |

Interest income

Interest income is calculated using the effective interest method for our GAAP investment portfolio.

Interest income increased from September 30, 2021 to September 30, 2022 primarily due to an increase in the size of our portfolio driven by purchases of Non-Agency Loans and Agency-Eligible Loans during the period. The weighted average amortized cost of our GAAP investment portfolio increased by \$2.3 billion from \$2.0 billion for the three months ended September 30, 2021 to \$4.3 billion for the three months ended September 30, 2022. This increase was coupled with an increase of 0.69% in the weighted average yield of our GAAP investment portfolio from 3.98% for the three months ended September 30, 2021 to 4.67% for the three months ended September 30, 2022.

Interest expense

Interest expense is calculated based on the actual financing rate and the outstanding financing balance of our GAAP investment portfolio.

Interest expense increased from September 30, 2021 to September 30, 2022 due to an increase in the amount of financing on our GAAP investment portfolio, inclusive of securitized debt, and an increase in the weighted average financing rate during the period. We issued \$2.7 billion of securitized debt during 2022, which contributed to an increase of \$2.2 billion in the weighted average financing balance on our GAAP investment portfolio, inclusive of securitized debt, from \$1.8 billion for the three months ended September 30, 2021 to \$4.0 billion for the three months ended September 30, 2022. Additionally, the weighted average financing rate on our GAAP investment portfolio, inclusive of securitized debt, increased by 1.88% from 1.61% for the three months ended September 30, 2021 to 3.49% for the three months ended September 30, 2022.

Net interest component of interest rate swaps

Net interest component of interest rate swaps represents the net interest income received or expense paid on our interest rate swaps.

The net interest component of interest rate swap expense decreased from September 30, 2021 to September 30, 2022 primarily as a result of our interest rate swap portfolio being in a net pay position in 2021 compared with the portfolio transitioning into a net receive position during the three months ended September 30, 2022 as a result of rising interest rates during the period. As of September 30, 2022, we held an interest rate swap portfolio with a notional value of \$0.7 billion, a weighted average receive-variable rate of 2.98%, and a weighted average pay-fix rate of 2.65%. As of September 30, 2021, we held an interest rate swap portfolio with a notional value of \$0.7 billion, a weighted average receive-variable rate of 0.13%, and a weighted average pay-fix rate of 0.73%.

Net realized gain/(loss)

The following table presents a summary of net realized gain/(loss) for the three months ended September 30, 2022 and 2021 (in thousands). The realized gain during the three months ended September 30, 2022 was driven by unwinding pay-fix, receive-float interest rate swaps which were previously held at unrealized gains as a result of rising interest rates.

| | Three Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Sales of residential mortgage loans and loans transferred to or sold from Other assets | \$ 731 | \$ 253 |
| Sales of real estate securities | 168 | (4,795) |
| Settlement of derivatives and other instruments | 50,082 | (1,305) |
| Sales of commercial loans | - | 387 |
| Total Net realized gain/(loss) | \$ 50,981 | \$ (5,460) |

Net unrealized gain/(loss)

The following table presents a summary of net unrealized gain/(loss) for the three months ended September 30, 2022 and 2021 (in thousands). During the three months ended September 30, 2022, unrealized losses on residential mortgage loans and unrealized gains on securitized debt were the result of rising interest rates and credit spread widening during the period.

| | Three Months Ended | |
|---|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Residential mortgage loans | \$ (154,563) | \$ 13,468 |
| Real estate securities | (2,563) | 5,388 |
| Securitized debt | 124,606 | (191) |
| Derivatives | (21,741) | 2,095 |
| Commercial loans | - | 7,194 |
| Excess mortgage servicing rights | - | 1,507 |
| Total Net unrealized gain/(loss) | \$ (54,261) | \$ 29,461 |

Management fee to affiliate

Our management fee is based upon a percentage of our Stockholders' Equity. See the "Contractual obligations" section of this Item 2 for further detail on the calculation of our management fee and for the definition of Stockholders' Equity. Management fees increased from September 30, 2021 to September 30, 2022 primarily due to an increase in our Stockholder's Equity as calculated pursuant to our Management Agreement resulting from our November 2021 common stock offering.

Other operating expenses

Other operating expenses is primarily comprised of professional fees, directors' and officers' ("D&O") insurance, directors' compensation, and certain non-investment related and investment related expenses reimbursable to the Manager. We are required to reimburse our Manager or its affiliates for operating expenses incurred by our Manager or its affiliates on our behalf, including certain compensation expenses and other expenses relating to legal, accounting, due diligence, and other services. Refer to the "Contractual obligations" section below for more detail on certain expenses reimbursable to the Manager. The following table presents a summary of Other operating expenses broken out between non-investment related expenses and investment related expenses for the three months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Non Investment Related Expenses | | |
| Affiliate expense reimbursement - Operating expenses (1) | \$ 1,405 | \$ 1,125 |
| Professional fees | 501 | 343 |
| D&O insurance | 309 | 349 |
| Directors' compensation | 168 | 169 |
| Other | 118 | 275 |
| Total Non Investment Related Expenses | 2,501 | 2,261 |
| Investment Related Expenses | | |
| Affiliate expense reimbursement - Deal related expenses | 261 | 189 |
| Residential mortgage loan asset management fees | 781 | 396 |
| Other | 540 | 151 |
| Total Investment Related Expenses | 1,582 | 736 |
| Total Other operating expenses | \$ 4,083 | \$ 2,997 |

- (1) For the year ended December 31, 2021, the Manager agreed to waive its right to receive expense reimbursements of \$0.8 million. For the three months ended September 30, 2021, \$0.2 million of the waived reimbursable expenses is included within the "Affiliated expense reimbursement - Operating expenses" line item above.

Transaction related expenses

Transaction related expenses are expenses associated with purchasing and securitizing residential mortgage loans as well as certain other transaction and performance related fees associated with assets we invest in. These fees increased from the three months ended September 30, 2021 to the three months ended September 30, 2022 primarily as a result of the upfront expenses on the two securitizations completed in the third quarter of 2022, as compared with upfront expenses on one securitization completed in the third quarter of 2021. Additionally, for the three months ended September 30, 2022, we accrued expenses on a securitization which settled in October 2022.

Servicing fees

We incur servicing fee expenses in connection with the servicing of our residential mortgage loans. Servicing fees increased from the three months ended September 30, 2021 to the three months ended September 30, 2022 primarily due to an increase in our GAAP residential mortgage loan portfolio. The weighted average cost of our GAAP residential mortgage loan portfolio increased by \$3.0 billion from \$1.3 billion for the three months ended September 30, 2021 to \$4.3 billion for the three months ended September 30, 2022 resulting from purchases of Non-Agency Loans and Agency-Eligible Loans.

Equity in earnings/(loss) from affiliates

Equity in earnings/(loss) from affiliates represents our share of earnings and profits of investments held within affiliated entities. Substantially all of these investments are comprised of real estate securities, loans, and our investment in AG Arc which holds our investment in Arc Home. The below table reconciles the net income/(loss) to the "Equity in earnings/(loss) from affiliates" line item on our consolidated statements of operations (in thousands).

| | Three Months Ended | |
|---|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| MATT Non-QM Loans | \$ 1,413 | \$ (644) |
| Land Related Financing | 300 | 598 |
| Re/Non-Performing Loans | 927 | 6,553 |
| AG Arc | (4,266) | 399 |
| Other | - | (24) |
| Equity in earnings/(loss) from affiliates | \$ (1,626) | \$ 6,882 |

The below table further disaggregates our "Equity in earnings/(loss) from affiliates" line item on our consolidated statements of operations (in thousands).

| | Three Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Interest income | \$ 1,748 | \$ 15,607 |
| Interest expense | 314 | 437 |
| Total Net Interest Income | 1,434 | 15,170 |
| Net realized gain/(loss) | - | 417 |
| Net unrealized gain/(loss) | 1,355 | (8,822) |
| Total Other Income/(Loss) | 1,355 | (8,405) |
| After-tax earnings/(loss) at AG Arc (1) | (1,303) | 1,868 |
| Net unrealized gain/(loss) on investment in AG Arc | (1,208) | 111 |
| Elimination of gains on loans sold to MITT (2) | (1,755) | (1,580) |
| Total AG Arc Earnings/(Loss) | (4,266) | 399 |
| Other operating expenses | 149 | 282 |
| Equity in earnings/(loss) from affiliates | \$ (1,626) | \$ 6,882 |

- (1) The earnings/(loss) at AG Arc during the three months ended September 30, 2022 were primarily the result of \$(1.9) million of losses related to Arc Home's lending and servicing operations, offset by \$0.6 million related to changes in the fair value of the MSR portfolio held by Arc Home. The earnings/(loss) at AG Arc during the three months ended September 30, 2021 were primarily the result of \$2.6 million of net income related to Arc Home's lending and servicing operations, offset by \$(0.7) million related to changes in the fair value of the MSR portfolio held by Arc Home.
- (2) The earnings recognized by AG Arc do not include our portion of gains recorded by Arc Home in connection with the sale of residential mortgage loans to us. Refer to Note 2 to the "Notes to Consolidated Financial Statements (unaudited)" for more information on this accounting policy.

Nine Months Ended September 30, 2022 compared to the Nine Months Ended September 30, 2021

The table below presents certain information from our consolidated statements of operations for the nine months ended September 30, 2022 and 2021 (in thousands).

| | Nine Months Ended | | Increase/(Decrease) |
|--|--------------------|--------------------|---------------------|
| | September 30, 2022 | September 30, 2021 | |
| Statement of Operations Data: | | | |
| Net Interest Income | | | |
| Interest income | \$ 123,017 | \$ 45,976 | \$ 77,041 |
| Interest expense | 73,994 | 16,552 | 57,442 |
| Total Net Interest Income | 49,023 | 29,424 | 19,599 |
| Other Income/(Loss) | | | |
| Net interest component of interest rate swaps | (5,849) | (3,498) | (2,351) |
| Net realized gain/(loss) | 60,072 | (5,124) | 65,196 |
| Net unrealized gain/(loss) | (123,032) | 58,995 | (182,027) |
| Other income/(loss), net | - | 37 | (37) |
| Total Other Income/(Loss) | (68,809) | 50,410 | (119,219) |
| Expenses | | | |
| Management fee to affiliate | 5,984 | 5,014 | 970 |
| Other operating expenses | 11,594 | 10,128 | 1,466 |
| Transaction related expenses | 14,939 | 3,731 | 11,208 |
| Servicing fees | 3,005 | 2,136 | 869 |
| Total Expenses | 35,522 | 21,009 | 14,513 |
| Income/(loss) before equity in earnings/(loss) from affiliates | (55,308) | 58,825 | (114,133) |
| Equity in earnings/(loss) from affiliates | (9,486) | 34,496 | (43,982) |
| Net Income/(Loss) | (64,794) | 93,321 | (158,115) |
| Gain on Exchange Offers, net | - | 472 | (472) |
| Dividends on preferred stock | (13,758) | (14,199) | 441 |
| Net Income/(Loss) Available to Common Stockholders | \$ (78,552) | \$ 79,594 | \$ (158,146) |

Interest income

Interest income increased from the nine months ended September 30, 2021 to the nine months ended September 30, 2022 primarily due to an increase in the size of our portfolio driven by purchases of Non-Agency Loans and Agency-Eligible Loans during the period. The weighted average amortized cost of our GAAP investment portfolio increased by \$2.1 billion from \$1.7 billion for the nine months ended September 30, 2021 to \$3.8 billion for the nine months ended September 30, 2022. This increase was coupled with an increase of 0.80% in the weighted average yield of our GAAP investment portfolio from 3.56% for the nine months ended September 30, 2021 to 4.36% for the nine months ended September 30, 2022.

Interest expense

Interest expense increased from the nine months ended September 30, 2021 to the nine months ended September 30, 2022 due to an increase in the amount of financing on our GAAP investment portfolio, inclusive of securitized debt, and an increase in the weighted average financing rate during the period. We issued \$2.7 billion of securitized debt during 2022, which contributed to an increase of \$1.9 billion in the weighted average financing balance on our GAAP investment portfolio, inclusive of securitized debt, from \$1.5 billion for the nine months ended September 30, 2021 to \$3.4 billion for the nine

months ended September 30, 2022. Additionally, the weighted average financing rate on our GAAP investment portfolio, inclusive of securitized debt, increased 1.39% from 1.48% for the nine months ended September 30, 2021 to 2.87% for the nine months ended September 30, 2022.

Net interest component of interest rate swaps

The net interest component of interest rate swap expense increased from September 30, 2021 to September 30, 2022 primarily due to the weighted average swap notional value increasing by \$0.3 billion from \$0.8 billion for the nine months ended September 30, 2021 to \$1.1 billion for the nine months ended September 30, 2022. As of September 30, 2022, we held an interest rate swap portfolio with a notional value of \$0.7 billion, a weighted average receive-variable rate of 2.98%, and a weighted average pay-fix rate of 2.65%. As of September 30, 2021, we held an interest rate swap portfolio with a notional value of \$0.7 billion, a weighted average receive-variable rate of 0.13%, and a weighted average pay-fix rate of 0.73%.

Net realized gain/(loss)

The following table presents a summary of net realized gain/(loss) for the nine months ended September 30, 2022 and 2021 (in thousands). The realized gain during the nine months ended September 30, 2022 was driven by unwinding pay-fix, receive-float interest rate swaps which were previously held at unrealized gains as a result of rising interest rates. This was offset by realized losses on sales of Agency RMBS.

| | Nine Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Sales of residential mortgage loans and loans transferred to or sold from Other assets | \$ 696 | \$ 7,643 |
| Sales of real estate securities | (34,504) | (9,677) |
| Settlement of derivatives and other instruments | 93,880 | (573) |
| Sales of commercial loans | - | (2,517) |
| Total Net realized gain/(loss) | \$ 60,072 | \$ (5,124) |

Net unrealized gain/(loss)

The following table presents a summary of net unrealized gain/(loss) for the nine months ended September 30, 2022 and 2021 (in thousands). During the nine months ended September 30, 2022, unrealized losses on residential mortgage loans and unrealized gains on securitized debt were the result of rising interest rates and credit spread widening during the period.

| | Nine Months Ended | |
|---|---------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Residential mortgage loans | \$ (451,532) | \$ 28,638 |
| Real estate securities | 3,529 | 1,122 |
| Securitized debt | 306,302 | (3,093) |
| Derivatives | 18,669 | 14,781 |
| Commercial loans | - | 16,148 |
| Excess mortgage servicing rights | - | 1,399 |
| Total Net unrealized gain/(loss) | \$ (123,032) | \$ 58,995 |

Management fee to affiliate

Management fees increased from September 30, 2021 to September 30, 2022 primarily due to an increase in our Stockholder's Equity as calculated pursuant to our Management Agreement resulting from our November 2021 common stock offering.

Other operating expenses

The following table presents a summary of Other operating expenses broken out between non-investment related expenses and investment related expenses for the nine months ended September 30, 2022 and 2021 (in thousands).

| | Nine Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Non Investment Related Expenses | | |
| Affiliate expense reimbursement - Operating expenses (1) | \$ 4,215 | \$ 3,375 |
| Professional fees | 1,438 | 2,048 |
| D&O insurance | 963 | 1,137 |
| Directors' compensation | 505 | 504 |
| Other | 589 | 689 |
| Total Non Investment Related Expenses | 7,710 | 7,753 |
| Investment Related Expenses | | |
| Affiliate expense reimbursement - Deal related expenses | 637 | 518 |
| Residential mortgage loan asset management fees | 1,963 | 1,168 |
| Other | 1,284 | 689 |
| Total Investment Related Expenses | 3,884 | 2,375 |
| Total Other operating expenses | \$ 11,594 | \$ 10,128 |

- (1) For the year ended December 31, 2021, the Manager agreed to waive its right to receive expense reimbursements of \$0.8 million. For the nine months ended September 30, 2021, \$0.6 million of the waived reimbursable expenses is included within the "Affiliated expense reimbursement - Operating expenses" line item above.

Transaction related expenses

Transaction related expenses increased from the nine months ended September 30, 2021 to the nine months ended September 30, 2022 primarily as a result of the upfront expenses on the seven securitizations completed during the nine months ended September 30, 2022, as well as expenses accrued on a securitization which settled in October 2022. This is compared with upfront expenses on two securitizations completed during the nine months ended September 30, 2021.

Servicing fees

Servicing fees increased from the nine months ended September 30, 2021 to the nine months ended September 30, 2022 primarily due to an increase in our GAAP residential mortgage loan portfolio. The weighted average cost of our GAAP residential mortgage loan portfolio increased by \$2.7 billion from \$0.9 billion for the nine months ended September 30, 2021 to \$3.6 billion for the nine months ended September 30, 2022 resulting from purchases of Non-Agency Loans and Agency-Eligible Loans.

Equity in earnings/(loss) from affiliates

The below table reconciles the net income/(loss) to the "Equity in earnings/(loss) from affiliates" line item on our consolidated statements of operations (in thousands).

| | Nine Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| MATT Non-QM Loans | \$ 154 | \$ 15,277 |
| Land Related Financing | 1,248 | 1,848 |
| Re/Non-Performing Loans | 758 | 13,370 |
| AG Arc | (11,646) | 4,033 |
| Other | - | (32) |
| Equity in earnings/(loss) from affiliates | \$ (9,486) | \$ 34,496 |

The below table further disaggregates our "Equity in earnings/(loss) from affiliates" line item on our consolidated statements of operations (in thousands).

| | Nine Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 |
| Interest income | \$ 4,899 | \$ 25,480 |
| Interest expense | 888 | 1,820 |
| Total Net Interest Income | 4,011 | 23,660 |
| Net realized gain/(loss) | (7) | 1,913 |
| Net unrealized gain/(loss) | (1,465) | 6,075 |
| Total Other Income/(Loss) | (1,472) | 7,988 |
| After-tax earnings/(loss) at AG Arc (1) | 589 | 6,946 |
| Net unrealized gain/(loss) on investment in AG Arc | (6,366) | 554 |
| Elimination of gains on loans sold to MITT (2) | (5,869) | (3,467) |
| Total AG Arc Earnings/(Loss) | (11,646) | 4,033 |
| Other operating expenses | 379 | 1,185 |
| Equity in earnings/(loss) from affiliates | \$ (9,486) | \$ 34,496 |

- (1) The earnings/(loss) at AG Arc during the nine months ended September 30, 2022 were primarily the result of \$4.1 million related to changes in the fair value of the MSR portfolio held by Arc Home, offset by \$(3.5) million of losses related to Arc Home's lending and servicing operations. The earnings/(loss) at AG Arc during the nine months ended September 30, 2021 were primarily the result of \$8.8 million of net income related to Arc Home's lending and servicing operations, offset by \$(1.9) million related to changes in the fair value of the MSR portfolio held by Arc Home.
- (2) The earnings recognized by AG Arc do not include our portion of gains recorded by Arc Home in connection with the sale of residential mortgage loans to us. Refer to Note 2 to the "Notes to Consolidated Financial Statements (unaudited)" for more information on this accounting policy.

Gain on Exchange Offers, net

We completed two privately negotiated exchange offers during the nine months ended September 30, 2021. As a result of the exchange offers, we exchanged 153,325 shares of our 8.25% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), 437,087 shares of our 8.00% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), and 154,383 shares of our 8.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") for a total of 1,367,264 shares of common stock. We recognized a gain of \$0.5 million in connection with the offers. There were no exchange offers completed during the nine months ended September 30, 2022.

Book value and Adjusted book value per share

The below table details book value and adjusted book value per common share. Per share amounts for book value are calculated using all outstanding common shares in accordance with GAAP, including all vested shares issued to our Manager and our independent directors under our equity incentive plans as of quarter-end.

| | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Book value per common share (1) | \$ 11.02 | \$ 14.64 |
| Adjusted book value per common share (2) | 10.68 | 14.32 |

- (1) Calculated using stockholders' equity less net proceeds of \$220.5 million on our issued and outstanding preferred stock as the numerator.
- (2) Calculated using stockholders' equity less the liquidation preference of \$228.0 million on our issued and outstanding preferred stock as the numerator.

Net interest margin and leverage ratio

Net interest margin and leverage ratio are metrics that management believes should be considered when evaluating the performance of our investment portfolio.

GAAP net interest margin and non-GAAP net interest margin, a non-GAAP financial measure, are calculated by subtracting the weighted average cost of funds from the weighted average yield for our GAAP investment portfolio and our investment portfolio, respectively. The weighted average yield represents an effective interest rate, which utilizes all estimates of future cash flows and adjusts for actual prepayment and cash flow activity as of quarter-end. The calculation of weighted average yield is weighted on fair value at quarter-end. The weighted average cost of funds is the sum of the weighted average funding costs on total financing arrangements outstanding at quarter-end, including all non-recourse financing arrangements, and our weighted average hedging cost, which is the weighted average of the net pay rate on our interest rate swaps. GAAP and non-GAAP cost of funds are weighted by the outstanding financing arrangements on our GAAP investment portfolio and our investment portfolio, respectively, and the fair value of securitized debt at quarter-end.

Our leverage ratio is determined by our portfolio mix as well as many additional factors, including the liquidity of our portfolio, the availability and price of our financing, the available capacity to finance our assets, and anticipated regulatory developments. See the "Financing activities" section below for more detail on our leverage ratio.

The table below sets forth the net interest margin and leverage ratio on our investment portfolio as of September 30, 2022 and September 30, 2021 and a reconciliation to the net interest margin and leverage ratio on our GAAP investment portfolio.

September 30, 2022

| Weighted Average | GAAP Investment Portfolio | Investments in Debt and Equity of Affiliates | Investment Portfolio (a) |
|----------------------|---------------------------|--|--------------------------|
| Yield | 4.92% | 15.57% | 5.06% |
| Cost of Funds (b)(c) | 3.92% | 4.76% | 3.93% |
| Net Interest Margin | 1.00% | 10.81% | 1.13% |
| Leverage Ratio (d) | 8.5x | (e) | 2.0x |

September 30, 2021

| Weighted Average | GAAP Investment Portfolio | Investments in Debt and Equity of Affiliates | Investment Portfolio (a) |
|----------------------|---------------------------|--|--------------------------|
| Yield | 3.60% | 18.69% | 4.30% |
| Cost of Funds (b)(c) | 1.92% | 3.16% | 1.96% |
| Net Interest Margin | 1.68% | 15.53% | 2.34% |
| Leverage Ratio (d) | 3.8x | (e) | 1.8x |

(a) Excludes any net TBA positions.

(b) Includes cost of non-recourse financing arrangements.

(c) As of September 30, 2022, Cost of Funds related to our GAAP investment portfolio includes 3.75% on our securitized debt and 4.74% on our financing arrangements. As of September 30, 2021, Cost of Funds related to our GAAP investment portfolio includes 1.94% on our securitized debt and 1.54% on our financing arrangements.

(d) The leverage ratio on our GAAP Investment Portfolio represents GAAP leverage. The leverage ratio on our investment portfolio represents Economic Leverage as defined below in the "Financing Activities" section.

(e) Refer to the "Financing activities" section below for an aggregate breakout of leverage.

Core Earnings

One of our objectives is to generate net income from net interest margin on the portfolio, and management uses Core Earnings, as one of several metrics, to help measure our performance against this objective. Management believes that this non-GAAP measure, when considered with our GAAP financial statements, provides supplemental information useful for investors to help evaluate our financial performance. However, management also believes that our definition of Core Earnings has important limitations as it does not include certain earnings or losses our management team considers in evaluating our financial performance. Our presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. This non-GAAP measure should not be considered a substitute for, or superior to, Net Income/(loss) available to common stockholders or Net income/(loss) per diluted common share calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated.

We define Core Earnings, a non-GAAP financial measure, as Net Income/(loss) available to common stockholders excluding (i) (a) unrealized gains/(losses) on loans, real estate securities, derivatives and other investments, inclusive of our investment in AG Arc, and (b) net realized gains/(losses) on the sale or termination of such instruments, (ii) any transaction related expenses

incurred in connection with the acquisition, disposition, or securitization of our investments, (iii) accrued deal-related performance fees payable to third party operators to the extent the primary component of the accrual relates to items that are excluded from Core Earnings, such as unrealized and realized gains/(losses), (iv) realized and unrealized changes in the fair value of Arc Home's net mortgage servicing rights and the derivatives intended to offset changes in the fair value of those net mortgage servicing rights, (v) deferred taxes recognized at our taxable REIT subsidiaries, if any, and (vi) any gains/(losses) associated with exchange transactions on our common and preferred stock. Items (i) through (vi) above include any amount related to those items held in affiliated entities. Management considers the transaction related expenses referenced in (ii) above to be similar to realized losses incurred at the acquisition, disposition, or securitization of an asset and does not view them as being part of its core operations. Management views the exclusion described in (iv) above to be consistent with how it calculates Core Earnings on the remainder of its portfolio. Management excludes all deferred taxes because it believes deferred taxes are not representative of current operations. Core Earnings include the net interest income and other income earned on our investments on a yield adjusted basis, including TBA dollar roll income/(loss) or any other investment activity that may earn or pay net interest or its economic equivalent.

A reconciliation of "Net Income/(loss) available to common stockholders" to Core Earnings for the three and nine months ended September 30, 2022 and 2021 is set forth below (in thousands, except per share data).

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Net Income/(loss) available to common stockholders | \$ (7,455) | \$ 29,993 | \$ (78,552) | \$ 79,594 |
| Add (Deduct): | | | | |
| Net realized (gain)/loss | (50,981) | 5,460 | (60,072) | 5,124 |
| Net unrealized (gain)/loss | 54,261 | (29,461) | 123,032 | (58,995) |
| Transaction related expenses and deal related performance fees (1) | 5,486 | 2,484 | 15,575 | 4,496 |
| Equity in (earnings)/loss from affiliates | 1,626 | (6,882) | 9,486 | (34,496) |
| Net interest income and expenses from equity method investments (2)(3) | (4,170) | 15,000 | (10,755) | 24,861 |
| Other (income)/loss, net | - | - | - | (14) |
| (Gains) from Exchange Offers, net | - | - | - | (472) |
| Dollar roll income/(loss) | 633 | (1,113) | 1,999 | (1,113) |
| Core Earnings | \$ (600) | \$ 15,481 | \$ 713 | \$ 18,985 |
| Core Earnings, per Diluted Share (4) | \$ (0.03) | \$ 0.96 | \$ 0.03 | \$ 1.24 |

- (1) For the three months ended September 30, 2022 and 2021, total transaction related expenses and deal related performance fees included \$5.3 million and \$2.0 million, respectively, recorded within the "Transaction related expenses" line item and \$0.2 million and \$0.5 million, respectively, recorded within the "Interest expense" line item, which relates to the amortization of deferred financing costs. For the nine months ended September 30, 2022 and 2021, total transaction related expenses and deal related performance fees included \$14.9 million and \$3.7 million, respectively, recorded within the "Transaction related expenses" line item and \$0.7 million and \$0.8 million, respectively, recorded within the "Interest expense" line item, which relates to the amortization of deferred financing costs.
- (2) For the three months ended September 30, 2022 and 2021, \$2.4 million or \$0.11 per share and \$0.2 million or \$0.01 per share, respectively; and for the nine months ended September 30, 2022 and 2021, \$9.2 million or \$0.40 per share and \$1.3 million or \$0.08 per share, respectively, of realized and unrealized changes in the fair value of Arc Home's net mortgage servicing rights and corresponding derivatives were excluded from Core Earnings, net of deferred tax expense. Additionally, for the three months ended September 30, 2022 and 2021, \$(1.2) million or \$(0.05) per share and \$0.1 million or \$0.01 per share, respectively; and for the nine months ended September 30, 2022 and 2021, \$(6.4) million or \$(0.28) per share and \$0.6 million or \$0.04 per share, respectively, of unrealized changes in the fair value of our investment in Arc Home were excluded from Core Earnings.
- (3) Core income or loss recognized by AG Arc does not include our portion of gains recorded by Arc Home in connection with the sale of residential mortgage loans to us. For the three months ended September 30, 2022 and 2021, we eliminated \$1.8 million or \$0.08 per share and \$1.6 million or \$0.10 per share, and for the nine months ended September 30, 2022 and 2021, we eliminated \$5.9 million or \$0.25 per share and \$3.5 million or \$0.23 per share of intra-entity profits recognized by Arc Home, respectively, and also decreased the cost basis of the underlying loans we purchased by the same amount. Refer to Note 2 to the "Notes to Consolidated Financial Statements (unaudited)" for more information on this accounting policy.
- (4) Per share amounts presented have been adjusted to reflect the one-for-three reverse stock split effected July 22, 2021, where applicable.

Investment activities

We aim to allocate capital to investment opportunities with attractive risk/return profiles in our target asset classes. Our investment activities primarily include acquiring and securitizing newly-originated residential mortgage loans. We finance our acquired loans through various financing lines on a short-term basis and securitize the loans to obtain long-term, non-recourse, non-mark-to-market financing as market conditions permit. We may also invest in Agency RMBS to utilize excess liquidity. Our investment and capital allocation decisions depend on prevailing market conditions and compliance with Investment Company Act and REIT tests, among other factors, and may change over time in response to opportunities available in different economic and capital market environments. As a result, in reacting to market conditions and taking into account a variety of other factors, including liquidity, duration, and interest rate expectations, the mix of our assets changes over time as we deploy capital. We actively evaluate our investments based on factors including, among others, the characteristics of the underlying collateral, geography, expected return, expected future prepayment trends, supply of and demand for our investments, costs of financing, costs of hedging, expected future interest rate volatility, and the overall shape of the U.S. Treasury and interest rate swap yield curves.

We allocate our equity by investment type using the fair value of our investment portfolio, less any associated leverage, inclusive of any long TBA position (at cost). We allocate all non-investment portfolio related assets and liabilities to our investment portfolio based on the characteristics of such assets and liabilities in order to sum to stockholders' equity per the consolidated balance sheets. Our equity allocation method is a non-GAAP methodology and may not be comparable to the similarly titled measure or concepts of other companies, who may use different calculations and allocation methodologies.

The following table presents a summary of the allocated equity of our investment portfolio as of September 30, 2022 and December 31, 2021 (\$ in thousands).

| | Allocated Equity | | Percent of Equity | |
|----------------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 |
| Residential Investments \$ | 457,719 | \$ 459,058 | 98.6% | 80.5% |
| Agency RMBS | 6,577 | 111,322 | 1.4% | 19.5% |
| Total \$ | 464,296 | \$ 570,380 | 100.0% | 100.0% |

The following table presents a summary of our investment portfolio as of September 30, 2022 and December 31, 2021 and a reconciliation to our GAAP Investment Portfolio (\$ in thousands).

| | Fair Value | | Percent of Investment Portfolio Fair Value | | Leverage Ratio (a) | |
|---|-----------------------|----------------------|---|-------------------|-----------------------|----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 |
| Residential Investments \$ | 4,286,474 | \$ 2,725,889 | 99.5% | 84.6% | 2.0x | 2.1x |
| Agency RMBS | 19,543 | 495,713 | 0.5% | 15.4% | 2.2x | 3.7x |
| Total: Investment Portfolio | \$ 4,306,017 | \$ 3,221,602 | 100.0% | 100.0% | 2.0x | 2.4x |
| Investments in Debt and Equity of Affiliates | \$ 57,982 | \$ 72,026 | N/A | N/A | (b) | (b) |
| Total: GAAP Investment Portfolio | \$ 4,248,035 | \$ 3,149,576 | N/A | N/A | 8.5x | 4.9x |

- (a) The leverage ratio on our investment portfolio represents Economic Leverage as defined below in the "Financing Activities" section and is calculated by dividing each investment type's total recourse financing arrangements by its allocated equity (described in the chart above). Cash posted as collateral has been allocated pro-rata by each respective asset class's Economic Leverage amount. The Economic Leverage Ratio excludes any fully non-recourse financing arrangements and includes any net receivables or payables on TBAs. The leverage ratio on our GAAP Investment Portfolio represents GAAP leverage.
- (b) Refer to the "Financing activities" section below for an aggregate breakout of leverage.

The following table presents a reconciliation of our Investment Portfolio to our GAAP Investment Portfolio as of September 30, 2022 and December 31, 2021 (\$ in thousands).

| Instrument | September 30, 2022 | | | | | | | December 31, 2021 |
|---|---------------------|---------------------|---------------------------|---------------------|-----------------------------|------------------------|-----------------------------------|---------------------|
| | Current Face | Amortized Cost | Unrealized Mark-to-Market | Fair Value (1) | Weighted Average Coupon (2) | Weighted Average Yield | Weighted Average Life (Years) (3) | Fair Value (1) |
| Residential Investments | | | | | | | | |
| Non-Agency Loans | \$ 2,931,350 | \$ 2,984,999 | \$ (290,327) | \$ 2,694,672 | 5.10% | 4.85% | 9.20 | \$ 1,858,798 |
| Agency-Eligible Loans | 1,377,367 | 1,369,518 | (123,771) | 1,245,747 | 4.00% | 4.23% | 9.59 | 440,837 |
| MATT Non-QM Loans (4) | 373,359 | 41,197 | (2,373) | 38,824 | 1.03% | 15.50% | 3.43 | 45,837 |
| Re/Non-Performing Loans | 373,913 | 305,438 | (14,074) | 291,364 | 3.83% | 8.17% | 4.69 | 360,131 |
| Land Related Financing | 10,946 | 10,946 | - | 10,946 | 14.50% | 14.50% | 0.24 | 16,891 |
| Non-Agency RMBS Interest Only (5) | 111,990 | 2,910 | 2,011 | 4,921 | 0.38% | 33.04% | 4.44 | 3,395 |
| Total Residential Investments | 5,178,925 | 4,715,008 | (428,534) | 4,286,474 | 4.50% | 5.05% | 8.44 | 2,725,889 |
| Agency RMBS | | | | | | | | |
| 30 Year Fixed Rate | - | - | - | - | -% | -% | - | 495,713 |
| Interest Only | 130,457 | 20,333 | (790) | 19,543 | 2.97% | 7.48% | 6.69 | - |
| Total Agency RMBS | 130,457 | 20,333 | (790) | 19,543 | 2.97% | 7.48% | 6.69 | 495,713 |
| Total: Investment Portfolio | \$ 5,309,382 | \$ 4,735,341 | \$ (429,324) | \$ 4,306,017 | 4.46% | 5.06% | 8.40 | \$ 3,221,602 |
| Investments in Debt and Equity of Affiliates | \$ 419,136 | \$ 60,136 | \$ (2,154) | \$ 57,982 | 1.92% | 15.57% | 3.20 | \$ 72,026 |
| Total: GAAP Investment Portfolio | \$ 4,890,246 | \$ 4,675,205 | \$ (427,170) | \$ 4,248,035 | 4.59% | 4.92% | 8.68 | \$ 3,149,576 |

- (1) Refer to Note 10 to the "Notes of the Consolidated Financial Statements (unaudited)" for more detail on what is included in our "Investments in debt and equity of affiliates" line item on our consolidated balance sheets. Our assets held through Investments in debt and equity of affiliates are included in the "MATT Non-QM Loans," "Re/Non-Performing Loans," and "Land Related Financing," line items above.
- (2) Equity residuals with a zero coupon rate are excluded from this calculation.
- (3) Weighted average life is based on projected life. Typically, actual maturities are shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.
- (4) As of September 30, 2022 and December 31, 2021, this line item primarily includes retained tranches from securitizations.
- (5) As of September 30, 2022 and December 31, 2021, this line item includes Non-QM interest-only bonds.

Residential Investments

The following table presents the fair value of the loans and securities in our residential investments and a reconciliation to our GAAP residential portfolio (in thousands).

| | Fair Value | |
|--|---------------------|---------------------|
| | September 30, 2022 | December 31, 2021 |
| Residential mortgage loans (1) | \$ 4,222,235 | \$ 2,663,992 |
| Non-Agency RMBS (2) | 64,239 | 61,897 |
| Total Residential Investments | \$ 4,286,474 | \$ 2,725,889 |
| Less: Residential mortgage loans in Investments in Debt and Equity of Affiliates | 19,056 | 28,886 |
| Less: Non-Agency RMBS in Investments in Debt and Equity of Affiliates | 38,926 | 43,140 |
| Total GAAP Residential Investments | \$ 4,228,492 | \$ 2,653,863 |

- (1) Includes Non-Agency Loans, Agency-Eligible Loans, Re/Non-Performing Loans, and Land Related Financing not held in securitized form.
- (2) Includes Non-Agency Loans, Agency-Eligible Loans, and Re/Non-Performing Loans held in securitized form.

Residential mortgage loans

The following tables present certain information regarding credit quality for certain categories within our Residential mortgage loan portfolio (\$ in thousands).

| | September 30, 2022 | | | | | | | | | December 31, 2021 |
|--|--------------------------|---------------------|----------------------------|------------------|--|------------------|------------------|------------------|---------------------|-------------------|
| | Unpaid Principal Balance | Fair Value | Weighted Average (1)(2)(3) | | Aging by Unpaid Principal Balance (1)(2) | | | | Fair Value | |
| | | | Original LTV Ratio | Current FICO (4) | Current | 30-59 Days | 60-89 Days | 90+ Days | | |
| Non-Agency Loans | \$ 2,916,456 | \$ 2,684,474 | 69.24% | 732 | \$ 2,862,790 | \$ 30,305 | \$ 9,109 | \$ 14,252 | \$ 1,844,198 | |
| Agency-Eligible Loans | 1,360,470 | 1,235,553 | 66.56% | 760 | 1,350,150 | 9,969 | 351 | - | 440,837 | |
| MATT Non-QM Loans | 8,477 | 8,110 | 60.41% | 677 | 6,308 | - | 746 | 1,423 | 11,839 | |
| Re/Non-Performing Loans | 339,082 | 283,152 | 79.62% | 640 | 237,314 | 30,534 | 10,973 | 56,378 | 350,227 | |
| Land Related Financing | 10,946 | 10,946 | N/A | N/A | N/A | N/A | N/A | N/A | 16,891 | |
| Total Residential mortgage loans | \$ 4,635,431 | \$ 4,222,235 | 69.19% | 734 | \$ 4,456,562 | \$ 70,808 | \$ 21,179 | \$ 72,053 | \$ 2,663,992 | |
| Less: Residential mortgage loans in Investments in Debt and Equity of Affiliates | 19,423 | 19,056 | 60.41% | 677 | 6,308 | - | 746 | 1,423 | 28,886 | |
| Total GAAP Residential mortgage Loans | \$ 4,616,008 | \$ 4,203,179 | 69.20% | 734 | \$ 4,450,254 | \$ 70,808 | \$ 20,433 | \$ 70,630 | \$ 2,635,106 | |

- (1) Weighted average and aging data excludes residual positions where we consolidate a securitization and the positions are recorded on our balance sheet as Re/Non-Performing Loans. There may be limited data available regarding the underlying collateral of the residual positions.
- (2) Weighted average and aging data excludes Land Related Financing.
- (3) Amounts are weighted based on unpaid principal balance.
- (4) Weighted average current FICO excludes borrowers where FICO scores were not available.

See Note 3 to the "Notes to Consolidated Financial Statements (unaudited)" for a breakout of geographic concentration of credit risk within loans we include in the "Securitized residential mortgage loans, at fair value" and "Residential mortgage loans, at fair value" line items on our consolidated balance sheets.

Non-Agency RMBS

The following table presents the fair value of our Non-Agency RMBS by credit rating as of September 30, 2022 and December 31, 2021 (in thousands).

| Credit Rating - Non-Agency RMBS (1) | September 30, 2022 | December 31, 2021 |
|---|--------------------|-------------------|
| BBB | \$ 8,122 | \$ 4,074 |
| BB | 8,196 | 7,709 |
| B | 12,843 | 15,018 |
| Not Rated | 35,078 | 35,096 |
| Total: Non-Agency RMBS | \$ 64,239 | \$ 61,897 |
| Less: Non-Agency RMBS in Investments in Debt and Equity of Affiliates | 38,926 | 43,140 |
| Total: GAAP Basis | \$ 25,313 | \$ 18,757 |

- (1) Represents the minimum rating for rated assets of S&P, Moody, Morningstar, and Fitch credit ratings, stated in terms of the S&P equivalent.

The following table presents the geographic concentration of the underlying collateral for our Non-Agency RMBS portfolio (\$ in thousands).

| September 30, 2022 | | | December 31, 2021 | | |
|--------------------|------------------|---------------|-------------------|------------------|---------------|
| State | Fair Value | Percentage | State | Fair Value | Percentage |
| California | \$ 29,729 | 46.3% | California | \$ 31,480 | 50.9% |
| New York | 9,901 | 15.4% | New York | 11,092 | 17.9% |
| Florida | 4,050 | 6.3% | Florida | 3,661 | 5.9% |
| Texas | 2,289 | 3.6% | New Jersey | 1,684 | 2.7% |
| New Jersey | 2,028 | 3.2% | Texas | 1,511 | 2.4% |
| Other | 16,242 | 25.2% | Other | 12,469 | 20.2% |
| Total | \$ 64,239 | 100.0% | Total | \$ 61,897 | 100.0% |

Agency RMBS

The following table presents the fair value and the Constant Prepayment Rate ("CPR") experienced on our GAAP Agency RMBS portfolio for the periods presented (\$ in thousands).

| Agency RMBS | Fair Value | | CPR (1) | |
|-------------------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 |
| 30 Year Fixed Rate | \$ - | \$ 495,713 | -% | 6.1% |
| Interest Only | 19,543 | - | 12.6% | -% |
| Total/Weighted Average | \$ 19,543 | \$ 495,713 | 12.6% | 6.1% |

(1) Represents the weighted average monthly CPRs published during the year-to-date period for our in-place portfolio.

Investments in debt and equity of affiliates

See Note 10 to the "Notes to Consolidated Financial Statements (unaudited)" for a breakout of the "Investments in debt and equity of affiliates" line item on our consolidated balance sheets.

Financing activities

We use leverage to finance the purchase of our investment portfolio. Our leverage has primarily been in the form of repurchase agreements, revolving facilities, and securitized debt. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date and typically have a term of 30 to 90 days. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a "haircut." The size of the haircut reflects the perceived risk associated with the pledged asset. Haircuts may change as our financing arrangements mature or roll and are sensitive to governmental regulations. Interest rates on borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time we may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. We have also used revolving facilities, which are typically longer term in nature than repurchase agreements, to finance loans. Interest rates on these facilities are based on prevailing rates corresponding to the terms of the borrowings, and interest is paid on a monthly basis. Repurchase agreements and revolving facilities, which we refer to as our financing arrangements, are generally mark-to-market with respect to margin calls and recourse to us. We had outstanding financing arrangements with six and five counterparties as of September 30, 2022 and December 31, 2021, respectively.

Our financing arrangements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each financing arrangement, typical supplemental terms include requirements of minimum equity and liquidity, leverage ratios, and performance triggers. In addition, some of the financing arrangements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that we fail to comply with the covenants contained in these financing arrangements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the associated agreement. As of September 30, 2022, we are in compliance with all of our financial covenants.

We also use securitized debt to finance our loan portfolio. Securitized debt is generally non-mark-to-market with respect to margin calls and non-recourse to us.

Recourse and non-recourse financing

The below table provides detail on the breakout between recourse and non-recourse financing as of September 30, 2022 and December 31, 2021 (in thousands).

| | September 30, 2022 | December 31, 2021 |
|--|---------------------|---------------------|
| Recourse financing - Financing arrangements, including those in Investments in Debt and Equity of Affiliates | \$ 947,366 | \$ 1,791,596 |
| Non-recourse financing - Securitized debt, at fair value | 3,025,128 | 999,215 |
| Non-recourse financing - Financing arrangements included in Investments in Debt and Equity of Affiliates | 17,625 | 22,156 |
| Total Financing | 3,990,119 | 2,812,967 |
| Less: | | |
| Recourse financing - Financing arrangements included in Investments in Debt and Equity of Affiliates | 11,601 | 13,853 |
| Non-recourse financing - Financing arrangements included in Investments in Debt and Equity of Affiliates | 17,625 | 22,156 |
| Total Financing in Investments in Debt and Equity of Affiliates | 29,226 | 36,009 |
| Total Financing: GAAP Basis | \$ 3,960,893 | \$ 2,776,958 |

Leverage

We define GAAP leverage as the sum of (1) GAAP Securitized debt, at fair value, (2) our GAAP Financing arrangements, net of any restricted cash posted on such financing arrangements, and (3) the amount payable on purchases that have not yet settled less the financing remaining on sales that have not yet settled. We define Economic Leverage, a non-GAAP metric, as the sum of: (i) our GAAP leverage, exclusive of any fully non-recourse financing arrangements, (ii) financing arrangements held through affiliated entities, net of any restricted cash posted on such financing arrangements, exclusive of any financing utilized through AG Arc, any adjustment related to unsettled trades as described in (2) in the previous sentence, and any non-recourse financing arrangements and (iii) our net TBA position (at cost), if any.

The calculations in the tables below divide GAAP leverage and Economic Leverage by our GAAP stockholders' equity to derive our leverage ratios. The following tables present a reconciliation of our Economic Leverage ratio to GAAP Leverage (\$ in thousands).

| September 30, 2022 | Leverage | Stockholders' Equity | Leverage Ratio |
|--|---------------------|----------------------|----------------|
| GAAP Securitized debt, at fair value | \$ 3,025,128 | | |
| GAAP Financing arrangements | 935,765 | | |
| Restricted cash posted on Financing arrangements | (1,373) | | |
| Purchase price payable on loans | 794 | | |
| GAAP Leverage | \$ 3,960,314 | \$ 464,296 | 8.5x |
| Financing arrangements through affiliated entities | 29,226 | | |
| Non-recourse financing arrangements (1) | (3,042,753) | | |
| Economic Leverage | \$ 946,787 | \$ 464,296 | 2.0x |

(1) Non-recourse financing arrangements include securitized debt and other non-recourse financing held within MATT.

| December 31, 2021 | Leverage | Stockholders' Equity | Leverage Ratio |
|--|--------------|----------------------|----------------|
| GAAP Securitized debt, at fair value | \$ 999,215 | | |
| GAAP Financing arrangements | 1,777,743 | | |
| Restricted cash posted on Financing arrangements | (4,951) | | |
| Purchase price payable on loans | 87 | | |
| GAAP Leverage | \$ 2,772,094 | \$ 570,380 | 4.9x |
| Financing arrangements through affiliated entities | 35,744 | | |
| Non-recourse financing arrangements (1) | (1,021,371) | | |
| Net TBA receivable/(payable) adjustment | (394,212) | | |
| Economic Leverage | \$ 1,392,255 | \$ 570,380 | 2.4x |

(1) Non-recourse financing arrangements include securitized debt and other non-recourse financing held within MATT.

Hedging activities

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we may utilize derivative instruments in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. We may utilize interest rate swaps, swaption agreements, and other financial instruments such as short positions in to-be-announced securities. In utilizing leverage and interest rate derivatives, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the costs of our financing and hedging. Derivatives have not been designated as hedging instruments for GAAP. See Note 7 in the "Notes to Consolidated Financial Statements (unaudited)" for more information.

Dividends

Federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT ordinary taxable income, without regard to the deduction for dividends paid and excluding net capital gains and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our financing arrangements and other debt payable. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make required cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

As described above, our distribution requirements are based on taxable income rather than GAAP net income. Differences between taxable income and GAAP net income include (i) unrealized gains and losses associated with investment and derivative portfolios which are marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) temporary differences related to amortization of premiums and discounts paid on investments, (iii) the timing and amount of deductions related to stock-based compensation, (iv) temporary differences related to the recognition of realized gains and losses on sold investments and certain terminated derivatives, (v) taxes, (vi) methods of depreciation and (vii) differences between GAAP income or losses in our TRSs' and taxable income resulting from dividend distributions to the REIT from our TRSs'. Undistributed taxable income is based on current estimates and is not finalized until we file our annual tax return for that tax year, typically in October of the following year. We did not have any undistributed taxable income as of September 30, 2022.

On July 12, 2021, we announced a one-for-three reverse stock split of our outstanding shares of common stock. The reverse stock split was effected following the close of business on July 22, 2021. All per share amounts and common shares outstanding for all applicable periods presented have been adjusted on a retroactive basis to reflect the one-for-three reverse stock split.

The following table details our common stock dividends declared during the nine months ended September 30, 2022 and 2021.

2022

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share |
|------------------|-------------|--------------|-------------------------|
| 3/18/2022 | 3/31/2022 | 4/29/2022 | \$ 0.21 |
| 6/15/2022 | 6/30/2022 | 7/29/2022 | 0.21 |
| 9/15/2022 | 9/30/2022 | 10/31/2022 | 0.21 |
| Total | | | \$ 0.63 |

2021

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share |
|------------------|-------------|--------------|-------------------------|
| 3/22/2021 | 4/1/2021 | 4/30/2021 | \$ 0.18 |
| 6/15/2021 | 6/30/2021 | 7/30/2021 | 0.21 |
| 9/15/2021 | 9/30/2021 | 10/29/2021 | 0.21 |
| Total | | | \$ 0.60 |

The following tables detail our preferred stock dividends declared and paid during the nine months ended September 30, 2022 and 2021.

2022

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share | | |
|------------------|-------------|--------------|-------------------------|----------------|-----------------|
| | | | 8.25% Series A | 8.00% Series B | 8.000% Series C |
| 2/18/2022 | 2/28/2022 | 3/17/2022 | \$ 0.51563 | \$ 0.50 | \$ 0.50 |
| 5/2/2022 | 5/31/2022 | 6/17/2022 | 0.51563 | 0.50 | 0.50 |
| 8/3/2022 | 8/31/2022 | 9/19/2022 | 0.51563 | 0.50 | 0.50 |
| Total | | | \$ 1.54689 | \$ 1.50 | \$ 1.50 |

2021

| Declaration Date | Record Date | Payment Date | Cash Dividend Per Share | | |
|------------------|-------------|--------------|-------------------------|----------------|-----------------|
| | | | 8.25% Series A | 8.00% Series B | 8.000% Series C |
| 2/16/2021 | 2/26/2021 | 3/17/2021 | \$ 0.51563 | \$ 0.50 | \$ 0.50 |
| 5/17/2021 | 5/28/2021 | 6/17/2021 | 0.51563 | 0.50 | 0.50 |
| 7/30/2021 | 8/31/2021 | 9/17/2021 | 0.51563 | 0.50 | 0.50 |
| Total | | | \$ 1.54689 | \$ 1.50 | \$ 1.50 |

Liquidity and capital resources

Our liquidity determines our ability to meet our cash obligations, including distributions to our stockholders, payment of our expenses, financing our investments and satisfying other general business needs.

Our principal sources of cash consist of borrowings under financing arrangements, principal and interest payments we receive on our investment portfolio, cash generated from our operating results, and proceeds from capital market transactions. We typically use cash to repay principal and interest on our financing arrangements, to purchase loans, real estate securities, and other real estate related assets, to make dividend payments on our capital stock, to repurchase our capital stock, and to fund our operations. We may also generate liquidity when restricted cash that was pledged as collateral for clearing and executing trades, derivatives, and financing arrangements becomes unrestricted when the related collateral requirements are exceeded or at the maturity of the derivative or financing arrangement. Refer to "-Margin requirements" below discussing instances where we may use liquidity to meet margin requirements. At September 30, 2022, we had \$79.7 million of liquidity, which consisted of \$77.6 million of cash and cash equivalents and \$2.1 million of unencumbered Agency RMBS. At October 31, 2022, total liquidity was \$103.8 million, which consisted of \$101.7 million of cash and cash equivalents and \$2.1 million of unencumbered Agency RMBS. Refer to the "Contractual obligations" section of this Item 2 for additional obligations that could impact our liquidity.

Margin requirements

The fair value of our loans and real estate securities fluctuate according to market conditions. When the fair value of the assets pledged as collateral to secure a financing arrangement decreases to the point where the difference between the collateral fair value and the financing arrangement amount is less than the haircut, our lenders may issue a "margin call," which requires us to post additional collateral to the lender in the form of additional assets or cash. Under our repurchase facilities, our lenders have full discretion to determine the fair value of the securities we pledge to them. Our lenders typically value assets based on recent transactions in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled paydowns are announced monthly. We experience margin calls in the ordinary course of our business. In seeking to manage effectively the margin requirements established by our lenders, we maintain a position of cash and, when owned, unpledged Agency RMBS. We refer to this position as our "liquidity." The level of liquidity we have available to meet margin calls is directly affected by our leverage levels, our haircuts and the price changes on our assets. Typically, if interest rates increase or if credit spreads widen, then the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline, we will experience margin calls, and we will need to use our liquidity to meet the margin calls. There can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls. If our haircuts increase, our liquidity will proportionately decrease. In addition, if we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness. We intend to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls but that also allows us to be substantially invested in the residential mortgage market. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which may force us to liquidate assets into potentially unfavorable market conditions and harm our results of operations and financial condition. Further, an unexpected rise in interest rates and a corresponding fall in the fair value of our securities may also force us to liquidate assets under difficult market conditions, thereby harming our results of operations and financial condition, in an effort to maintain sufficient liquidity to meet increased margin calls.

Similar to the margin calls that we receive on our borrowing agreements, we may also receive margin calls on our derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the terms of the derivatives involved. We may also receive margin calls on our derivatives based on the implied volatility of interest rates. Our posting of collateral with our counterparties can be done in cash or assets, and is generally bilateral, which means that if the fair value of our interest rate hedges increases, our counterparty will be required to post collateral with us. Refer to the "Liquidity risk - derivatives" section of Item 3 below for a further discussion on margin.

Cash flows

The below details changes to our cash, cash equivalents, and restricted cash for the nine months ended September 30, 2022 and 2021 (\$ in thousands).

| | Nine Months Ended | | Change |
|--|--------------------|--------------------|-------------|
| | September 30, 2022 | September 30, 2021 | |
| Cash and cash equivalents and restricted cash, Beginning of Period | \$ 100,229 | \$ 62,318 | \$ 37,911 |
| Net cash provided by (used in) operating activities (1) | 16,806 | 19,765 | (2,959) |
| Net cash provided by (used in) investing activities (2) | (1,491,640) | (878,706) | (612,934) |
| Net cash provided by (used in) financing activities (3) | 1,474,041 | 925,449 | 548,592 |
| Net change in cash and cash equivalents and restricted cash | (793) | 66,508 | (67,301) |
| Effect of exchange rate changes on cash | - | 10 | (10) |
| Cash and cash equivalents and restricted cash, End of Period | \$ 99,436 | \$ 128,836 | \$ (29,400) |

- (1) Cash provided by operating activities is primarily attributable to net interest income less operating expenses for the nine months ended September 30, 2022.
- (2) Cash used in investing activities for the nine months ended September 30, 2022 was primarily attributable to purchases of investments, offset by sales of investments, principal repayments on investments, and the settlement of derivatives.
- (3) Cash provided by financing activities for the nine months ended September 30, 2022 was primarily attributable to issuance of securitized debt, offset by net repayments of financing arrangements and dividend payments.

Stock repurchase programs

During the nine months ended September 30, 2022, we repurchased 1.4 million shares for \$11.0 million under the common stock repurchase program authorized by our Board of Directors on November 3, 2015 (the "2015 Repurchase Program"). During the three and nine months ended September 30, 2021, we repurchased 0.3 million shares for \$2.8 million under the 2015 Repurchase Program. As of June 30, 2022, the \$25.0 million maximum repurchase amount authorized under the 2015 Repurchase Program was fully utilized.

On August 3, 2022, our Board of Directors authorized the 2022 Repurchase Program to repurchase up to \$15.0 million of our outstanding common stock on substantially the same terms as the 2015 Repurchase Program. The 2022 Repurchase Program does not have an expiration date and permits us to repurchase our shares through various methods, including open market repurchases, privately negotiated block transactions and Rule 10b5-1 plans. We may repurchase shares of our common stock from time to time in compliance with SEC regulations and other legal requirements. The extent to which we repurchase our shares, and the timing, manner, price, and amount of any such repurchases, will depend upon a variety of factors including market conditions and other corporate considerations as determined by management, as well as the limits of the 2022 Repurchase Program and our liquidity and business strategy. The 2022 Repurchase Program does not obligate us to acquire any particular amount of shares and may be modified or discontinued at any time. During the three and nine months ended September 30, 2022, we repurchased 0.4 million shares for \$2.3 million under the 2022 Repurchase Program. As of September 30, 2022, approximately \$12.7 million of common stock remained authorized for future share repurchases under the 2022 Repurchase Program.

On February 22, 2021, our Board of Directors authorized a stock repurchase program (the "Preferred Repurchase Program") pursuant to which our Board of Directors granted a repurchase authorization to acquire shares of our Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock having an aggregate value of up to \$20.0 million. No share repurchases under the Preferred Repurchase Program have been made since its authorization.

Shares of stock repurchased by us under any repurchase program, if any, will be cancelled and, until reissued by us, will be deemed to be authorized but unissued shares of its stock as required by Maryland law. The cost of the acquisition by us of shares of our own stock in excess of the aggregate par value of the shares first reduces additional paid-in capital, to the extent available, with any residual cost applied against retained earnings.

Equity distribution agreements

On May 5, 2017, we entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the "Sales Agents"), which we refer to as the "Equity Distribution Agreements," pursuant to which we may sell up to \$100.0 million aggregate offering price of shares of our common stock from time to time through the Sales Agents, under the Securities Act of 1933. For the three and nine months ended September 30, 2022, we did not issue any shares of common stock under the Equity Distribution Agreements. For the three months ended September 30, 2021, we did not issue any shares under the Equity Distribution Agreements. For the nine months ended September 30, 2021, we issued 1.0 million shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$13.1 million. Since inception of the program, we have issued approximately 2.2 million shares of common stock under the Equity Distribution Agreements for gross proceeds of \$48.3 million.

Common stock offering

On November 22, 2021, we completed a public offering of 7.0 million shares of our common stock and subsequently issued an additional 1.1 million shares pursuant to the underwriters' exercise of their over-allotment option at a price of \$9.98 per share. Net proceeds to us from the offering were approximately \$80.0 million, after deducting offering expenses.

Forward-looking statements regarding liquidity

Based upon our current portfolio, leverage and available borrowing arrangements, we believe the net proceeds of our common equity offerings, preferred equity offerings, and private placements, combined with cash flow from operations and our available borrowing capacity will be sufficient to enable us to meet our anticipated liquidity requirements, including funding our investment activities, paying fees under our management agreement, funding our distributions to stockholders and paying general corporate expenses.

Contractual obligations

Management agreement

The management agreement, as amended, provides for payment to the Manager of a management fee, an incentive fee, and reimbursements of certain expenses incurred by the Manager or its affiliates on behalf of us.

Management fee

The management fee is calculated and payable quarterly in arrears in an amount equal to 1.50% of our Stockholders' Equity, per annum. For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus our retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that we pay for repurchases of our common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and our independent directors and after approval by a majority of our independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our financial statements. The below table details the management fees incurred during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Management fee to affiliate | \$ 2,064 | \$ 1,693 | \$ 5,984 | \$ 5,014 |

As of September 30, 2022 and December 31, 2021, we have recorded management fees payable of \$2.1 million and \$1.8 million, respectively. The management fee payable is included within the "Due to affiliates" item within the "Other liabilities" line item on the consolidated balance sheets.

Incentive fee

In connection with our common stock offering in November 2021, including the Manager's purchase of 700,000 shares in the offering, on November 22, 2021, we and the Manager executed an amendment (the "Third Amendment") to the management agreement, pursuant to which we will pay the Manager an annual incentive fee in addition to the base management fee. Pursuant to the Third Amendment, the Manager waived the annual incentive fee with respect to the fiscal years ending December 31, 2021 and December 31, 2022, and the annual incentive fee will first be payable with respect to the fiscal year ending December 31, 2023.

The annual incentive fee with respect to each applicable fiscal year will be equal to 15% of the amount by which our cumulative adjusted net income from the date of the Third Amendment exceeds the cumulative hurdle amount, which represents an 8% return (cumulative, but not compounding) on an equity hurdle base consisting of the sum of (i) our adjusted book value (calculated in the manner described in our public filings) as of October 31, 2021, (ii) \$80.0 million, and (iii) the gross proceeds of any subsequent public or private common stock offerings by us. The annual incentive fee will be payable in cash, or, at the option of our Board of Directors, shares of our common stock or a combination of cash and shares.

In addition, pursuant to the Third Amendment, the term of the management agreement was extended until June 30, 2023, unless earlier terminated in accordance with its terms. Thereafter, the management agreement will continue to renew automatically each year for an additional one-year period, unless the Company or the Manager exercise its respective termination rights. All other terms and conditions of the management agreement continued without change.

Expense Reimbursement

Our Manager uses the proceeds from its management fee in part to pay compensation to its officers and personnel, who, notwithstanding that certain of them also are our officers, receive no compensation directly from us. We are required to reimburse our Manager or its affiliates for operating expenses incurred by our Manager or its affiliates on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any dollar limitation; however, reimbursements are subject to an annual budget process which

combines guidelines from the Management Agreement with oversight by our Board of Directors and discussions with our Manager.

We record expenses reimbursed to our Manager or its affiliates within the "Other operating expenses" and "Transaction related expenses" line items on the consolidated statements of operations. The below table details the expense reimbursement incurred during the three and nine months ended September 30, 2022 and 2021 (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Operating expenses (1) | \$ 1,405 | \$ 1,125 | \$ 4,215 | \$ 3,375 |
| Deal related expenses (1) | 261 | 189 | 637 | 518 |
| Transaction related expenses (2) | 738 | 251 | 2,484 | 331 |
| Expense reimbursements to affiliates | \$ 2,404 | \$ 1,565 | \$ 7,336 | \$ 4,224 |

(1) Included in the "Other operating expenses" line item on the consolidated statement of operations.

(2) Included in the "Transaction related expenses" line item on the consolidated statement of operations.

For the year ended December 31, 2021, our Manager agreed to waive its right to receive expense reimbursements of \$0.8 million. For the three and nine months ended September 30, 2021, we reduced our expense reimbursement amount by \$0.2 million and \$0.6 million, respectively. As of September 30, 2022 and December 31, 2021, we recorded reimbursements payable to our Manager or its affiliates of \$2.5 million and \$2.1 million, respectively. The Reimbursement payable to the Manager or its affiliates is included within the "Due to affiliates" item within the "Other liabilities" line item on the consolidated balance sheets.

Share-based compensation

The AG Mortgage Investment Trust, Inc. 2020 Equity Incentive Plan, which became effective on April 15, 2020 following the approval of our stockholders at our 2020 annual meeting of stockholders, provides for a maximum of 666,666 shares of common stock that may be issued under the plan. The maximum number of shares of common stock granted during a single fiscal year to any non-employee director, taken together with any cash fees paid to such non-employee director during any fiscal year, shall not exceed \$300,000 in total value (calculating the value of any such awards based on the grant date fair value). As of September 30, 2022, 570,901 shares of common stock were available to be awarded under the Equity Incentive Plan.

Since inception of the 2020 Equity Incentive Plan and through September 30, 2022, we have granted an aggregate of 95,765 shares of restricted common stock to our independent directors under our 2020 Equity Incentive Plan, all of which have vested.

The AG Mortgage Investment Trust, Inc. 2021 Manager Equity Incentive Plan (the "2021 Manager Plan"), which became effective on April 7, 2021 following the approval of our stockholders at our 2021 annual meeting of stockholders, provides for a maximum of 573,425 shares of common stock that may be subject to awards thereunder to our Manager. As of September 30, 2022, there were no shares or awards issued under the 2021 Manager Plan. Following the execution of the third amendment to our management agreement in November 2021 related to the incentive fee, our compensation committee no longer expects to continue its historical practice of making periodic equity grants to the Manager pursuant to the 2021 Manager Equity Incentive Plan.

Unfunded commitments

See Note 12 of the "Notes to Consolidated Financial Statements (unaudited)" for detail on our commitments as of September 30, 2022.

Off-balance sheet arrangements

Our investments in debt and equity of affiliates primarily consist of loans, real estate securities, and our interest in AG Arc. Investments in debt and equity of affiliates are accounted for using the equity method of accounting. Certain of our investments in debt and equity of affiliates securitize residential mortgage loans and retain interests in the subordinated tranches of the transferred assets. These retained interests are included in the MATT Non-QM Loans and Re/Non-Performing Loans line items of our investment portfolio. See Notes 2 and 10 to the "Notes to Consolidated Financial Statements (unaudited)" for a discussion of investments in debt and equity of affiliates.

We record TBA purchases and sales on the trade date and present the purchase or receipt net of the corresponding payable or receivable until the settlement date of the transaction. Refer to Note 7 to the "Notes to Consolidated Financial Statements (unaudited)" for additional detail on TBAs as of September 30, 2022, if applicable.

For additional information on our commitments as of September 30, 2022, refer to Note 12 of the "Notes to Consolidated Financial Statements (unaudited)." We do not expect these commitments, taken as a whole, to be significant to, or to have a material impact on, our overall liquidity or capital resources or our operations.

Critical accounting policies

We prepare our consolidated financial statements in conformity with GAAP, which requires the use of estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. We believe that the estimates, judgments and assumptions utilized in the preparation of our consolidated financial statements are prudent and reasonable. Although our estimates contemplate conditions as of September 30, 2022 and how we expect them to change in the future, it is reasonably possible that actual conditions could be different than anticipated in arriving at those estimates, which could materially affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates that involve the exercise of judgment and the use of assumptions as to future uncertainties. A discussion of the critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements is included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021 and in Note 2 to the "Notes to Consolidated Financial Statements (unaudited)." Our most critical accounting policies are believed to include (i) Valuation of financial instruments, (ii) Accounting for loans, (iii) Accounting for real estate securities, (iv) Interest income recognition, (v) Financing arrangements, and (vi) Investment consolidation.

These policies involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our consolidated financial statements are based are reasonable at the time made and based upon information available to us at that time. We rely upon third-party pricing of our assets at each-quarter end to arrive at what we believe to be reasonable estimates of fair value, whenever available. For more information on our fair value measurements, see Note 5 to the "Notes to Consolidated Financial Statements (unaudited)." For a review of our significant accounting policies and the recent accounting pronouncements that may impact our results of operations, see Note 2 to the "Notes to Consolidated Financial Statements (unaudited)."

Compliance with Investment Company Act and REIT Tests

We conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes, of the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is an investment company if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the "40% Test"). "Investment securities" do not include, among other things, U.S. government securities, and securities issued by majority-owned subsidiaries that (i) are not investment companies and (ii) are not relying on the exceptions from the definition of investment company provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act (the so called "private investment company" exemptions). We closely monitor our holdings to ensure continuing and ongoing compliance with the 40% Test. As of December 31, 2021 and September 30, 2022, we determined that we maintained compliance with the 40% Test requirements.

If we failed to comply with the 40% Test or another exemption under the Investment Company Act and became regulated as an investment company, our ability to, among other things, use leverage would be substantially reduced and, as a result, we would be unable to conduct our business as described in this Report. Accordingly, in order to maintain our exempt status, we closely monitor our subsidiaries' holdings to ensure continuing and ongoing compliance with Section 3(c)(5)(C) of the Investment Company Act, which exempts from the definition of "investment company" entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The staff of the Securities and Exchange Commission, or the SEC, generally requires an entity relying on Section 3(c)(5)(C) to invest at least 55% of its

portfolio in "qualifying assets" (the "55% Test") and at least another 25% in additional qualifying assets or in "real estate-related" assets (with no more than 20% comprised of miscellaneous assets) (the "80% Test"). As of December 31, 2021 and September 30, 2022, we determined that our subsidiaries maintained compliance with both the 55% Test and the 80% Test requirements.

We intend to conduct our business so as to maintain our qualification as a REIT under the Code by satisfying the asset, income, distribution and other REIT requirements. We calculate that at least 75% of our assets were real estate assets, cash and cash items and government securities for the year ended December 31, 2021. We also calculate that a sufficient portion of our revenue qualifies for the 75% gross income test and for the 95% gross income test rules for the year ended December 31, 2021. We believe we are currently in compliance with the REIT income and asset tests as well as all other REIT requirements including the ownership of our stock and the distribution of our taxable income. Therefore, for the year ended December 31, 2021, we believe that we qualified as a REIT under the Code.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary components of our market risk relate to interest rates, liquidity, prepayment rates, real estate, credit and basis risk. While we do not seek to avoid risk completely, we seek to assume risk that can be reasonably quantified from historical experience and to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake. Many of these risks have become particularly heightened due to sustained inflation, rising mortgage rates, the Federal Reserve's monetary policy actions, and the COVID-19 pandemic.

Interest rate risk

Interest rate risk is highly sensitive to many factors, including governmental monetary, fiscal and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with both our investments and the financing under our financing arrangements. We generally seek to manage this risk by monitoring the reset index and the interest rate related to our investment portfolio and our financings; by structuring our financing arrangements to have a range of maturity terms, amortizations and interest rate adjustment periods; and by using derivative instruments to adjust interest rate sensitivity of our investment portfolio and borrowings. Our hedging techniques can be highly complex, and the value of our investment portfolio and derivatives may be adversely affected as a result of changing interest rates.

Interest rate effects on net interest income

Our operating results depend in large part upon differences between the yields earned on our investments and our cost of borrowing and upon the effectiveness of our interest rate hedging activities. The majority of our financing arrangements are short term in nature, exclusive of our residential mortgage loans financed through securitized debt. Repurchase agreements financing our securities portfolio typically have an initial term between 30 and 90 days while repurchase agreements financing our residential mortgage loans prior to securitization have an initial term of one year. The financing rate on these agreements will generally be determined at the outset of each transaction by reference to prevailing rates plus a spread. As a result, our borrowing costs will tend to increase during periods of rising interest rates as we renew, or "roll", maturing transactions at the higher prevailing rates. When combined with the fact that the income we earn on our fixed interest rate investments will remain substantially unchanged, this will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses.

In an attempt to offset the increase in funding costs related to rising interest rates, our Manager may cause us to enter into hedging transactions structured to provide us with positive cash flow in the event interest rates rise. Our Manager accomplishes this through the use of interest rate derivatives. Some hedging strategies involving the use of derivatives are highly complex, may produce volatile returns and may expose us to increased risks relating to counterparty defaults.

Interest rate effects on fair value

Another component of interest rate risk is the effect that changes in interest rates will have on the fair value of the assets that we acquire.

Generally, in a rising interest rate environment, the fair value of our loan and real estate securities portfolios would be expected to decrease, all other factors being held constant. In particular, the portion of our loan and real estate securities portfolios with fixed-rate coupons would be expected to decrease in value more severely than that portion with a floating-rate coupon. This is because fixed-rate coupon assets tend to have significantly more duration, or price sensitivity to changes in interest rates, than floating-rate coupon assets. Fixed-rate assets currently represent a majority of our portfolio.

The fair value of our investment portfolio could change at a different rate than the fair value of our liabilities when interest rates change. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for an instantaneous 100 basis point parallel shift in the yield curve while assuming all other market risk factors remain constant. In general, our assets have higher duration than our liabilities. In order to reduce this exposure, we use hedging instruments to reduce the gap in duration between our assets and liabilities.

We calculate estimated effective duration (i.e., the price sensitivity to changes in risk-free interest rates) to measure the impact of changes in interest rates on our portfolio value. We estimate duration based on third-party models. Different models and methodologies can produce different effective duration estimates for the same securities. We allocate the net duration by asset type based on the interest rate sensitivity.

The following chart details information about our duration gap as of September 30, 2022.

| Duration (1)(2) | Years |
|-----------------------------|--------|
| Agency RMBS | (0.01) |
| Residential Investments (3) | 4.27 |
| Hedges | (2.03) |
| Duration Gap | 2.23 |

- (1) Duration related to financing arrangements is netted within its respective line items.
- (2) Duration does not include our investment in AG Arc LLC.
- (3) Residential Investments are inclusive of forward purchase commitments to acquire Non-Agency Loans and Agency-Eligible Loans as of September 30, 2022.

The following table quantifies the estimated percent changes in GAAP equity, the fair value of our assets, and projected net interest income should interest rates go up or down instantaneously by 25, 50, and 75 basis points, assuming (i) the yield curves of the rate shocks will be parallel to each other and the current yield curve and (ii) all other market risk factors remain constant. These estimates were compiled using a combination of third-party services and models, market data and internal models. All changes in equity, assets and income are measured as percentage changes from the projected net interest income and GAAP equity from our base interest rate scenario. The base interest rate scenario assumes spot and forward interest rates existing as of September 30, 2022. Actual results could differ materially from these estimates.

Agency RMBS and Agency-Eligible Loan assumptions attempt to predict default and prepayment activity at projected interest rate levels. To the extent that these estimates or other assumptions do not hold true, actual results will likely differ materially from projections and could result in percentage changes larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. In addition, while the table below reflects the estimated impact of interest rate increases and decreases on a static portfolio as of September 30, 2022, our Manager may from time to time sell any of our investments as a part of the overall management of our investment portfolio.

| Change in Interest Rates (basis points) (1)(2) | Change in Fair Value as a Percentage of GAAP Equity (3) | Change in Fair Value as a Percentage of Assets (3) | Percentage Change in Projected Net Interest Income (4) |
|--|---|--|--|
| 75 | (4.7)% | (0.5)% | (0.8)% |
| 50 | (3.2)% | (0.3)% | (0.6)% |
| 25 | (1.6)% | (0.2)% | (0.3)% |
| (25) | 1.7% | 0.2% | 0.3% |
| (50) | 3.4% | 0.4% | 0.5% |
| (75) | 5.1% | 0.5% | 0.8% |

- (1) Includes investments held through affiliated entities that are reported as "Investments in debt and equity of affiliates" on our consolidated balance sheet, but excludes AG Arc.
- (2) Does not include cash investments, which typically have overnight maturities and are not expected to change in value as interest rates change.
- (3) Changes in fair value as a percentage of GAAP equity and assets are inclusive of forward purchase commitments to acquire Non-Agency Loans and Agency-Eligible Loans as of September 30, 2022.
- (4) Interest income includes trades settled as of September 30, 2022.

The information set forth in the interest rate sensitivity table above and all related disclosures constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table. See below for additional risks which may impact the fair value of our assets, GAAP equity and net income.

Liquidity risk

Our primary liquidity risk arises from financing long-maturity assets with shorter-term financings primarily in the form of financing arrangements. Our Manager seeks to mitigate our liquidity risks by maintaining a prudent level of leverage, monitoring our liquidity position on a daily basis and maintaining a substantial cushion of cash and unpledged real estate securities and loans in our portfolio in order to meet future margin calls. In addition, our Manager seeks to further mitigate our

liquidity risk by (i) maintaining relationships with a carefully selected group of financing counterparties and (ii) monitoring the ongoing financial stability and future business plans of our financing counterparties.

Liquidity risk - financing arrangements

We pledge mortgage loans or real estate securities and cash as collateral to secure our financing arrangements. Should the fair value of our mortgage loans or real estate securities pledged as collateral decrease (as a result of rising interest rates, changes in prepayment speeds, widening of credit spreads or otherwise), we will likely be subject to margin calls for additional collateral from our financing counterparties. Should the fair value of our mortgage loans or real estate securities decrease materially and suddenly, margin calls will likely increase causing an adverse change to our liquidity position which could result in substantial losses. In addition, we cannot be assured that we will always be able to roll our financing arrangements at their scheduled maturities, which could cause material additional harm to our liquidity position and result in substantial losses. Further, should funding conditions tighten as they did during the Great Financial Crisis (2007-2009) and the onset of the COVID-19 pandemic (2020), our financing arrangement counterparties may increase our margin requirements on new financings, including repurchase transactions that we roll at maturity with the same counterparty. This would require us to post additional collateral and would reduce our ability to use leverage and could potentially cause us to incur substantial losses.

Liquidity risk - derivatives

The terms of our interest rate swaps require us to post collateral in the form of cash or Agency RMBS to our counterparties to satisfy two types of margin requirements: variation margin and initial margin.

We and our swap counterparties are both required to post variation margin to each other depending upon the daily moves in prevailing benchmark interest rates. The amount of this variation margin is derived from the mark to market valuation of our swaps. Hence, as our swaps lose value in a falling interest rate environment, we are required to post additional variation margin to our counterparties on a daily basis; conversely, as our swaps gain value in a rising interest rate environment, we are able to recall variation margin from our counterparties. By recalling variation margin from our swaps counterparties, we are able to partially mitigate the liquidity risk created by margin calls on our repurchase transactions during periods of rising interest rates.

Initial margin works differently. Collateral posted to meet initial margin requirements is intended to create a safety buffer to benefit our counterparties if we were to default on our payment obligations under the terms of the swaps and our counterparties were forced to unwind the swap. Initial margin on our centrally cleared trades varies from day to day depending upon various factors, including the absolute level of interest rates and the implied volatility of interest rates. There is a distinctly positive correlation between initial margin, on the one hand, and the absolute level of interest rates and implied volatility of interest rates, on the other hand. As a result, in times of rising interest rates or increasing rate volatility, we anticipate that the initial margin required on our centrally-cleared trades will likewise increase, potentially by a substantial amount. These margin increases will have a negative impact on our liquidity position and will likely impair the intended liquidity risk mitigation effect of our swaps discussed above.

Real estate value risk

Residential property values are subject to volatility and may be affected adversely by a number of factors outside of our control, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses and reduce the value of the collateral underlying our RMBS portfolio as well as the potential sale proceeds available to repay our loans in the event of a default. In addition, substantial decreases in property values can increase the rate of strategic defaults by residential mortgage borrowers which can impact and create significant uncertainty in the recovery of principal and interest on our investments.

Credit risk

We are exposed to the risk of potential credit losses from an unanticipated increase in borrower defaults as well as general credit spread widening on any non-agency assets in our portfolio. We seek to manage this risk through our Manager's pre-acquisition due diligence process and, if available, through the use of non-recourse financing, which limits our exposure to credit losses to the specific pool of collateral which is the subject of the non-recourse financing. Our Manager's pre-acquisition due diligence process includes the evaluation of, among other things, relative valuation, supply and demand trends, the shape of various yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Concern surrounding the ongoing COVID-19 pandemic and certain of the actions taken to reduce its spread have caused and may continue to cause business shutdowns, limitations on financial transactions, labor shortages, supply chain interruptions, increased unemployment and property vacancy and lease default rates, reduced profitability and ability for property owners to make loan, mortgage and other payments, and overall economic and financial market instability, all of which may cause an increase in credit risk of our credit sensitive assets. Any future period of payment deferrals, forbearance, delinquencies, defaults, foreclosures or losses will likely adversely affect our net interest income from residential mortgage loans and RMBS investments, the fair value of these assets, our ability to liquidate the collateral that may underlie these investments and obtain additional financing and the future profitability of our investments. Further, in the event of delinquencies, defaults and foreclosure, regulatory changes and policies designed to protect borrowers and renters may slow or prevent us from taking remediation actions.

Prepayment risk

Premiums arise when we acquire real estate assets at a price in excess of the principal balance of the mortgages securing such assets (i.e., par value). Conversely, discounts arise when we acquire assets at a price below the principal balance of the mortgages securing such assets. Premiums paid on our assets are amortized against interest income and accretable purchase discounts on our assets are accreted to interest income. Purchase premiums or discounts on our assets are amortized or accreted over the life of each respective asset using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the yield or interest income earned on such assets. An increase in the prepayment rate will similarly accelerate the accretion of purchase discounts, conversely increasing the yield or interest income earned on such assets. A decrease in the prepayment rate will have a directionally opposite impact on the yield or interest income.

As further discussed in Note 2 of the "Notes to Consolidated Financial Statements (unaudited)," differences between previously estimated cash flows and current actual and anticipated cash flows caused by changes to prepayment or other assumptions are adjusted retrospectively through a "catch up" adjustment for the impact of the cumulative change in the effective yield through the reporting date for securities accounted for under ASC 320-10 (generally, Agency RMBS) or adjusted prospectively through an adjustment of the yield over the remaining life of the investment for investments accounted for under ASC 325-40 (generally, Non-Agency RMBS and interest-only securities) and mortgage loans accounted for under ASC 310-30.

In addition, our interest rate hedges are structured in part based upon assumed levels of future prepayments within our mortgage loan or real estate securities portfolio. If prepayments are slower or faster than assumed, the life of the real estate securities or mortgage loans will be longer or shorter than assumed, respectively, which could reduce the effectiveness of our Manager's hedging strategies and may cause losses on such transactions.

Our Manager seeks to mitigate our prepayment risk by investing in real estate assets with a variety of prepayment characteristics.

Basis risk

Basis risk refers to the possible decline in book value triggered by the risk of incurring losses on the fair value of Agency RMBS as a result of widening market spreads between the yields on Agency RMBS and the yields on comparable duration Treasury securities. The basis risk associated with fluctuations in fair value of Agency RMBS may relate to factors impacting the mortgage and fixed income markets other than changes in benchmark interest rates, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other hedges to protect against moves in interest rates, such instruments will generally not protect our net book value against basis risk.

Capital Market Risk

We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our common stock, preferred stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through revolving facilities or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore may require us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that the Company's management, including its principal executive officer and principal financial officer, as appropriate, allow for timely decisions regarding required disclosure.

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of September 30, 2022. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

No change occurred in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are at times subject to various legal proceedings and claims arising in the ordinary course of our business. In addition, in the ordinary course of business, we can be and are involved in governmental and regulatory examinations, information gathering requests, investigations and proceedings. As of the date of this report, we are not party to any litigation or legal proceedings, or to our knowledge, any threatened litigation or legal proceedings, which we believe, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS.

Refer to the risks identified under the caption "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2021 and our subsequent filings, which are available on the Securities and Exchange Commission's website at www.sec.gov, and in the "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On August 3, 2022, the Company's Board of Directors authorized the 2022 Repurchase Program to repurchase up to \$15.0 million of the Company's outstanding common stock. The Board's authorization does not have an expiration date. The following table presents information related to our purchases of our common stock pursuant to the 2022 Repurchase Program during the three months ended September 30, 2022:

| Period ⁽¹⁾ | Total Number of Shares Purchased | Weighted Average Price Paid per Share ⁽²⁾ | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽²⁾ |
|---|----------------------------------|--|--|---|
| July 1, 2022 to July 31, 2022 | - | \$ - | - | \$ - |
| August 1, 2022 to August 31, 2022 | 221,581 | 6.71 | 221,581 | 13,512,601 |
| September 1, 2022 to September 30, 2022 | 163,006 | 5.23 | 163,006 | 12,660,645 |
| Total | 384,587 | \$ 6.08 | 384,587 | \$ 12,660,645 |

(1) Based on trade date.

(2) Includes brokerage commissions and clearing fees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION.

On November 3, 2022, our Board of Directors approved an amendment and restatement of our Bylaws (our "Amended and Restated Bylaws"), which became effective that same day. Among other things, our Amended and Restated Bylaws:

- enhance disclosure and procedural requirements in connection with stockholder nominations of directors, including by (i) requiring any stockholder submitting a director nomination notice to represent as to whether such stockholder intends to solicit proxies in support of director nominees other than our nominees in accordance with Rule 14a-19 under the Exchange Act, (ii) requiring such nominating stockholder to provide reasonable evidence, at our request, that certain requirements of Rule 14a-19 have been satisfied, (iii) permitting us to disregard proxies or votes solicited for such stockholder's nominees if such stockholder fails to comply with requirements of Rule 14a-19, and (iv) incorporating other technical changes in light of the universal proxy rules adopted by the SEC; and
- clarify that a stockholder is permitted to cast a vote by proxy filed in accordance with the procedures established by us if that proxy is (i) executed by such stockholder or its agent in a manner permitted by applicable law, (ii) compliant with Maryland law and our bylaws, and (iii) filed in accordance with the procedures established by us.

The preceding summary of our Amended and Restated Bylaws is not complete and is qualified in its entirety by reference to, and should be read in connection with, the complete copy of our Amended and Restated Bylaws attached hereto as Exhibit 3.3 to this Quarterly Report on Form 10-Q and incorporated by reference herein.

ITEM 6. EXHIBITS.

| Exhibit No. | Description |
|------------------------------|--|
| <u>3.1</u> | <u>Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Amendment No. 2 to the Company's Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 18, 2011 ("Pre-Effective Amendment No. 2").</u> |
| <u>3.2</u> | <u>Articles of Amendment to Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 8, 2017.</u> |
| <u>3.3*</u> | <u>Amended and Restated Bylaws of AG Mortgage Investment Trust, Inc.</u> |
| <u>3.4</u> | <u>Articles Supplementary of 8.25% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.</u> |
| <u>3.5</u> | <u>Articles Supplementary of 8.00% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u> |
| <u>3.6</u> | <u>Articles Supplementary of 8.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.5 of the Company's Registration Statement on Form 8-A12B, filed with the Securities and Exchange Commission on September 16, 2019.</u> |
| <u>3.7</u> | <u>Articles of Amendment of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 27, 2021.</u> |
| <u>3.8</u> | <u>Articles of Amendment of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 27, 2021.</u> |
| <u>4.1</u> | <u>Specimen Common Stock Certificate of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 4.1 on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2021.</u> |
| <u>4.2</u> | <u>Specimen 8.25% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.</u> |
| <u>4.3</u> | <u>Specimen 8.00% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u> |
| <u>4.4</u> | <u>Specimen 8.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 3.9 of the Company's Registration Statement on Form 8-A12B, filed with the Securities and Exchange Commission on September 16, 2019.</u> |
| <u>31.1*</u> | <u>Certification of Thomas J. Durkin pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2*</u> | <u>Certification of Anthony W. Rossiello pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1*</u> | <u>Certification of Thomas J. Durkin pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.2*</u> | <u>Certification of Anthony W. Rossiello pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

| | |
|---------|---|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL) |

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AG MORTGAGE INVESTMENT TRUST, INC.

November 8, 2022

By: /s/ THOMAS J. DURKIN
Thomas J. Durkin
Chief Executive Officer and President (principal executive officer)

November 8, 2022

By: /s/ ANTHONY W. ROSSIELLO
Anthony W. Rossiello
Chief Financial Officer (principal financial
officer and principal accounting officer)